

# 29<sup>th</sup> Annual Report 2011-2012



National Award for  
New Technologies



Golden Peacock  
Award



NATCO Pharma Limited

... continues the mission in serving the nation

Laurels Galore!

## Corporate Social Responsibility activities taken up by the Company under the aegis of NATCO Trust



Natco school of learning inauguration



blood donation



child club



tobacco awareness



eye camp



a beneficiary speaks in alumni meet



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## BOARD OF DIRECTORS

|                                     |   |
|-------------------------------------|---|
| <b>Sri V.C. Nannapaneni</b>         | Chairman & Managing Director  |
| <b>Sri C.P. Ravindranath</b>        | Director - Nominee of Export-Import Bank of India<br>(till 18th April, 2012)  |
| <b>Sri T.V. Rao</b>                 | Director - Nominee of Export-Import Bank of India<br>(w.e.f 18th April, 2012) |
| <b>Sri G.S. Murthy</b>              | Director  |
| <b>Dr. B.S. Bajaj</b>               | Director  |
| <b>Dr. Jasti Samba Siva Rao</b>     | Director  |
| <b>Sri Rajeev Nannapaneni</b>       | Vice Chairman & Chief Executive Officer<br>(w.e.f 1st June, 2012)             |
| <b>Dr. P. Bhaskara Narayana</b>     | Director & Chief Financial Officer  |
| <b>Dr. A.K.S. Bhujanga Rao</b>      | President (R&D and Technical)   |
| <b>Sri Nitin Jagannath Deshmukh</b> | Additional Director<br>(w.e.f 9th February, 2012)                             |

**CS. M. Adinarayana**  
Company Secretary &  
G.M. (Legal & Corporate Affairs)

### **Bankers**

Allahabad Bank  
State Bank of India  
Corporation Bank  
Oriental Bank of Commerce  
Export-Import Bank of India

### **Auditors**

M/s. Walker, Chandio & Co.  
Chartered Accountants,  
7th Floor, Block III, White House,  
Kundan Bagh, Begumpet,  
Hyderabad 500 016

### **Registered Office**

NATCO House,  
Road No.2, Banjara Hills,  
Hyderabad 500 033.  
[www.natcopharma.co.in](http://www.natcopharma.co.in)



## NOTICE

Notice is hereby given that the Twenty Ninth Annual General Meeting of the Members of the Company will be held on **Saturday, the 29th day of September, 2012 at 10.30 a.m.** at Daspalla Hotel, Road No.37, Jubilee Hills, Hyderabad- 500 033 to transact the following business:

### ORDINARY BUSINESS:

1. To receive, consider and adopt the Profit & Loss account for the year ended 31st March, 2012 and the Balance sheet as at 31st March, 2012 and the Report of the Directors and Auditors thereon.

2. To confirm the already paid Interim Dividend as Final Dividend on equity shares for the year 2011-2012.

**"RESOLVED THAT** the Interim Dividend of ₹3 per share declared by the Board of Directors of the Company at their meeting held on 9th February, 2012 on 3,11,47,952 Equity shares of ₹10/- each absolving a sum of ₹9,34,43,856 be and is hereby approved as the Final Dividend for the year ended 31st March, 2012."

3. To appoint a Director in place of Mr. G S Murthy.

**"RESOLVED THAT** Shri G.S. Murthy, be and is hereby re-appointed as a Director of the Company, who shall be liable for retirement by rotation".

4. To appoint a Director in place of Dr B S Bajaj.

**"RESOLVED THAT** Dr.B.S.Bajaj, be and is hereby re-appointed as a Director of the Company, who shall be liable for retirement by rotation".

5. To appoint a Director in place of Dr.J.Sambasiva Rao.

**"RESOLVED THAT** Dr.J.Sambasiva Rao, be and is hereby re-appointed as a Director of the Company, who shall be liable for retirement by rotation".

6. To appoint Auditors for the financial year 2012-2013 and fix their remuneration.

**"RESOLVED THAT** M/s. Walker, Chandiook & Co., Chartered Accountants, (Firm Registration No.001076N), Hyderabad, the Statutory Auditors of the Company, who retires at the conclusion of this meeting, being eligible, be and are hereby re-appointed as auditors of the Company to hold office from the conclusion of this meeting to the conclusion of the next Annual General Meeting and that the Board of Directors be and are hereby authorised to fix their remuneration."

### SPECIAL BUSINESS

7. To consider and if thought fit to pass with or without modification, the following Resolution as an Ordinary Resolution.

**"RESOLVED THAT** pursuant to Section 255 and other applicable provisions, if any, of the Companies Act, 1956, consent of the Company be and is hereby accorded to appoint Mr. Nitin Jagannath Deshmukh as a Director of the Company who is liable for retirement by rotation."

8. To consider and if thought fit to pass with or without modification(s) the following resolution as a Special Resolution:

**"RESOLVED THAT** pursuant to the provisions of Sections 198, 269, 309, 310, 311, 314 and Schedule XIII, and other applicable provisions, if any, of the Companies Act, 1956 (including any statutory modifications or re-enactment thereof, for the time being in force) and subject to such sanctions, approvals and other necessary permissions as may be necessary from the Government of India, approval of the Company be and is hereby accorded to the revision in remuneration payable to Shri V.C.Nannapaneni, Chairman & Managing Director of the Company for a period of 3 years from 1st June, 2012 to 31st May, 2015 as detailed below:

1. Remuneration not exceeding ₹1,25,00,000/- (Rupees one crore twenty five lakhs only) per annum.

2. Perquisites:

- i. Contribution to Provident Fund, Superannuation Fund or Annuity Fund to the extent these either singly or put together are not taxable under the Income Tax Act, 1961.
- ii. Gratuity payable at a rate not exceeding half month's salary for each completed year of service, and
- iii. Encashment of leave at the end of the tenure.

**RESOLVED FURTHER THAT** the Board of Directors of the Company be and are hereby authorized to vary, alter or modify the remuneration as may be agreed to by the Board of Directors and Shri V. C Nannapaneni.

**RESOLVED FURTHER THAT** notwithstanding as above where in any financial year closing on and after March 31, 2013, if the Company has no profits or its profits are inadequate, the Company shall pay to Shri V.C.Nannapaneni the remuneration by way of salary, allowances and perks not exceeding the limits specified under Schedule XIII of the Companies Act, 1956 or such other limits as may be prescribed by the Government of India from time to time as minimum remuneration.

**RESOLVED FURTHER THAT,** the Board be and is hereby authorised to do all such acts, deeds, matters and things as it may deem fit, necessary and delegate to any Director(s) or any other Officer(s) of the Company for obtaining necessary permissions and approvals, if any, in this connection."

9. To consider and if thought fit to pass with or without modification(s) the following resolution as a Special Resolution:

**"RESOLVED THAT** pursuant to the provisions of Sections 198, 269, 309, 310, 311, 314 and, Schedule XIII, and other applicable provisions, if any, of the Companies Act, 1956 (including any statutory modifications or re-enactment thereof, for the time being in force) and subject to such sanctions, approvals and other necessary permissions as may be necessary from the Government of India, approval of the Company be and is hereby accorded for increasing the remuneration payable to Mr. Rajeev Nannapaneni and also redesignate him as Vice Chairman & Chief Executive Officer (CEO) in the wholetime employment of the Company for a period of 3 years from 1st June, 2012 to 31st May, 2015 as detailed below:

1. Salary not exceeding ₹1,00,00,000/- (Rupees one crore only) per annum for a period of 3 years from 1st June, 2012 to 31st May, 2015.
2. Perquisites:
  - i. Contribution to Provident Fund, Superannuation Fund or Annuity Fund to the extent these either singly or put together are not taxable under the Income Tax Act, 1961.
  - ii. Gratuity payable at a rate not exceeding half month's salary for each completed year of service, and
  - iii. Encashment of leave at the end of the tenure.

**RESOLVED FURTHER THAT** the Board of Directors of the Company be and are hereby authorized to vary, alter or modify the remuneration as may be agreed to by the Board of Directors and Mr. Rajeev Nannapaneni.

**RESOLVED FURTHER THAT** notwithstanding as above where in any financial year closing on and after March 31, 2013, if the Company has no profits or its profits are inadequate, the Company shall pay to Mr. Rajeev Nannapaneni the remuneration by way of salary, allowances and perks not exceeding the limits specified under Schedule XIII of the Companies Act, 1956 or such other limits as may be prescribed by the Government of India from time to time as minimum remuneration.

**RESOLVED FURTHER THAT,** the Board be and is hereby authorised to do all such acts, deeds, matters and things as it may deem fit, necessary and delegate to any Director(s) or any other Officer(s) of the Company for obtaining necessary permissions and approvals, if any, in this connection."

By order of the Board  
For **NATCO Pharma Limited**

**M. Adinarayana**  
Company Secretary &  
G.M. (Legal & Corp. Affairs)

Place : Hyderabad  
Date : 11<sup>th</sup> August, 2012



**NOTES**

1. A member entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and vote instead of himself/ herself on a poll and a proxy need not be a member of the Company. The instrument of proxy in order to be valid must be deposited at the Registered Office of the Company duly completed, stamped and signed, at least 48 hours before the commencement of the meeting.
2. Corporate Members intending to send their authorised representatives to attend the Meeting are requested to send to the Company a certified copy of the Board Resolution authorising the representatives to attend and vote on their behalf at the Meeting.
3. In terms of Section 256 of the Companies Act 1956, Sri G.S Murthy, Dr. B S Bajaj and Dr. Jasti Samba Siva Rao, Directors, retire by rotation at the ensuing Meeting and being eligible offer themselves for re-appointment. The Board of Directors of the Company commends their respective reappointments.
4. Members holding shares in physical form are requested to notify any change in their address immediately to the Registered Office of the Company, Hyderabad and in case of Members holding shares in electronic form are requested to notify any change in their mailing address to their respective Depository Participants.
5. Brief resumes of the retiring Directors is provided at the end of this Notice and the Director proposed to be appointed is annexed in the Explanatory Statement.
6. The Members / Proxies are requested to bring the copy of the Annual Report to the Annual General Meeting and hand over the attendance slip at the entrance of the meeting venue along with their Registered Folio No./Client ID and DP ID Numbers for easy identification.
7. In case of Joint Holders attending the Meeting, only such Joint Holder who is higher in the order of names will be entitled to vote.
8. Nomination facility is available as per the guidelines. Share transfers and related matters will be undertaken at the Company's Transfer Agents M/s. Venture Capital and Corporate Investments Limited.
9. The Register of Members and Share Transfer Books will remain closed for 4 days i.e. from 26-09-2012 to 29-09-2012 (both days inclusive).
10. Members holding shares in electronic form may note that the Bank Particulars registered against their respective depository accounts will be used by the Company for payment of dividend. The Company or its Registrars and Transfer Agents cannot act on any request received directly from the members holding shares in electronic form for any change of bank particulars or bank mandates. Such changes are to be advised only to the Depository Participants of the Company.
11. Members who wish to claim Dividends, which remain unclaimed, are requested to either correspond with the Legal & Secretarial Department at the Company's registered office or the Company's Registrars and Share Transfer Agents (Venture Capital and Corporate Investments Private Limited). Members are requested to note that dividends not encashed or claimed within seven years and 30 days from the date of declaration of the Dividend, will, as per Section 205 A(5) read with Section 205 C of the Companies Act, 1956, be transferred to the Investor Education and Protection Fund (IEPF) of Government of India. In view of this, members are advised to send all the un-encashed dividend warrants to the Company or our Registrars for revalidation and encash them before the due dates of transfer to the IEPF.

| Financial year | Date of Declaration of Dividend | Unclaimed Amount as on 31-03-2012 in ₹ | Due date for transfer to Investor Education and Protection Fund |
|----------------|---------------------------------|--|---|
| 2005 - 2006    | 24-10-2005                      | 5,83,905                               | 23-11-2012  |
| 2006 - 2007    | 26-10-2006                      | 5,54,093                               | 25-11-2013  |
| 2007 - 2008    | 25-10-2007                      | 4,72,959                               | 24-11-2014  |
| 2008 - 2009    | 25-05-2009                      | 6,21,322                               | 24-06-2016  |
| 2009 - 2010    | 27-01-2010                      | 9,79,656                               | 25-02-2017  |
| 2010 - 2011    | 14-02-2011                      | 9,38,808                               | 13-02-2018  |
| 2011 - 2012    | 09-02-2012                      | 18,81,197                              | 08-02-2019  |

12. Information relating to the Directors seeking re-appointment in Annual General Meeting scheduled to be held on 29th September, 2012.

| Name of Director  | Sri G S Murthy   | Dr B S Bajaj  | Dr.Jasti Samba Siva Rao   |
|---|--|---|---|
| Date of Birth   | 04-05-1937   | 19-09-1927  | 15-05-1952  |
| Date of Appointment   | 30-01-2000   | 30-03-2002  | 20-04-2006  |
| Relationship with other Director                                  | None   | None  | None  |
| Experience  | <p>He practised as Advocate in Andhra Pradesh and then worked in Reserve Bank of India (RBI) and IDBI for nearly three decades at Mumbai including in the capacity of Executive Director (Legal) of IDBI.</p> <p>He was the first Managing Director of Investor Services of India Ltd., Mumbai, promoted by IDBI, LIC, UTI, SBI CAPS etc. He was on the Board of several Companies as IDBI Nominee. After retirement, he provided services as Legal Consultant for ESSAR Group of Companies, Mumbai for about 3 years and as Senior Advisor for Govt. of AP for about 9 years for implementation of public enterprise reforms.</p> <p>He has vast experience specially in Legal, Corporate and General Management Disciplines.</p> | <p>He engaged in R&amp;D from 1952 to 1974 in the field of Antibiotics, Physiology of Fungi and Microbial Genetics and has published more than 75 scientific papers. He has a total experience of more than 60 years in the field of Bio technology, Drugs and Pharmaceuticals.</p> <p>He was Chief Executive Anti Biotech production plant of IDPL and worked for Torrent Gujarat Biotech Ltd.</p> <p>He was on the Board of several companies and member of Scientific Advisory Committee of CSIR Laboratories. He is the Chairman of All India Biotech Association, Southern Chapter and Vice Chairman of Export Promotion Forum for Biotechnology, Govt. of India. He is also member of Biotech Advisory Committee of AP Govt. and Member of the Project Management Committee (PMC) of the Biotechnology Incubation Centre Project.</p> <p>He is the Secretary General of Federation of Asian Biotech Association. He was awarded by the Maryland India Business Round Table Inc., USA for the global leadership. Now he has been nominated as the Convener of Bio Asia 2013.</p> | <p>He has got rich and varied experience in Pharmaceutical Research and teaching and held various positions in USA in a career span of last 30 years.</p> <p>Presently he is the Senior Associate Dean for Research and Head, Cancer Biology and Pharmacology, University of Illinois College of Medicine at Peoria (UICOM-P) Peoria, IL, USA</p> |
| Qualification   | LL.M., F.C.S., C.A.I.I.B   | M.Sc, Ph.D, FPSI  | M.Sc, Ph.D.   |
| Board membership of other Companies                               | None   | 1. Pacific Hospitals Private Ltd.<br>2. Tran-Scell Biologics Private Limited  | None  |
| Chairman/ Member of the Committee of Directors of other Companies | None   | None  | None  |

## EXPLANATORY STATEMENT

### EXPLANATORY STATEMENT AS REQUIRED UNDER SECTION 173(2) OF THE COMPANIES ACT, 1956.

#### ITEM NO 7

Mr.Nitin Jagannath Deshmukh was appointed as Additional Director of the Company by the Board at their meeting held on 9-2-2012. According to Section 260 of the Companies Act, 1956 he holds office of the Director only upto the date of Annual General Meeting. Under Section 257 of the Companies Act, 1956 a notice has been received from a member signifying his intention to propose Mr.Nitin Deshmukh as a Director of the Company along with a deposit of ₹500/- (Rupees five hundred only) as required under the aforesaid Section.

Mr.Nitin Jagannath Deshmukh holds an M.B.A. and P.G. Degree in Pharmaceutical Technology from Bombay and also Post Graduation Programme in Pharmaceutical Technology from Belgium and he is a Director on the Board of Kotak Investments Advisors Ltd besides on the Boards of a couple of portfolio companies of Kotak Private Equity Group.

He has over 23 years of experience in Venture Capital and Private equity investing in Companies like ICICI Venture, Dresdner Kleinwort Capital and Cipla. He also served as the Director General of Association of Biotechnology Led Enterprises (ABLE).

Except Mr.Nitin Jagannath Deshmukh, none of the Directors of the Company are concerned or interested in the said item of business.

Your Directors recommend the resolution for your approval.

#### ITEM NO.8

Mr.V.C.Nannapaneni was reappointed as Chairman & Managing Director (CMD) of the Company by the Board of Directors as recommended by the Remuneration Committee of Board of Directors on 28-05-2012 for a period of three years from 1st June, 2012 to 31st May, 2015 on the terms and conditions as contained in the resolution. The abstract u/s 302 of the Companies Act was also sent to shareholders on 11-6-2012.

The present remuneration of CMD was fixed in 2004 and there is no revision from then onwards. When compared to the pharma industry standards, the remuneration which is being paid to CMD is very low.

Due to manifold increase in his responsibilities /operations and driving the company towards higher heights as also significant improvement in the business and making the company to reach the targeted goals of supplying quality medicines at affordable prices and taking into account the inflation and other relevant factors it is prudent to increase the remuneration payable to CMD.

After taking into consideration the above, the Remuneration Committee recommended to the Board for increasing the remuneration of Shri V.C.Nannapaneni, Chairman & Managing Director of the Company, subject to the approval of members from ₹96,00,000/- (Rupees Ninety Six Lakhs only) to ₹1,25,00,000/- (Rupees one crore twenty five lakhs only) per annum for a period of 3 years from 1st June, 2012 to 31st May, 2015.

Except Mr.V.C.Nannapaneni & Mr.Rajeev Nannapaneni, no other Director, is deemed to be interested or concerned in the re-appointment and remuneration payable to Mr.V.C.Nannapaneni.

Your Directors recommend the resolution for your approval.



#### ITEM NO.9

Mr. Rajeev Nannapaneni is associated with the Company for over 12 years and he is taking care of all the functional operations of the Company including but not limited to Production, Finance, Legal & Secretarial, new drug launches, filing of ANDAs, several Para IV (first-to-file) filings, patents filings, pre and post grant oppositions, Domestic and international Marketing, exports, imports, Quality Control & Audits, GMP, GLP, international inspections, Supply Chain Management etc. Mr.Rajeev is instrumental in getting the first ever Compulsory License in India to the Company for an anti cancer drug Sorafenib. Company under his leadership successfully challenged some of the patents by way of pregrant oppositions, defending the infringement suits, filing revocation applications etc. He helped the Company to evolve good and successful business strategies which culminated the Company becoming one of the top Companies in the oncology segment by introducing life saving cancer drugs at affordable prices.

In view of the manifold increase in his job responsibilities and considering the pharma industry standards, the Remuneration Committee of Board of Directors on 28-05-2012 recommended to the Board for increasing the remuneration of Mr.Rajeev Nannapaneni subject to the approval of members from ₹75,00,000/- (Rupees seventy five lakhs only) to ₹1,00,00,000/- (Rupees one crore only) per annum for a period of 3 years from 1st June, 2012 to 31st May, 2015 and to redesignate him as Vice Chairman & Chief Executive Officer(CEO) on the terms and conditions as contained in the resolution for your approval. The abstract u/s 302 of the Companies Act was also sent to shareholders on 11-6-2012.

Except Mr. Rajeev Nannapaneni & Mr.V.C.Nannapaneni, no other Director, is deemed to be interested or concerned increasing in the remuneration payable to Mr. Rajeev Nannapaneni.

Your Directors recommend the resolution for your approval.

By order of the Board  
For **NATCO Pharma Limited**

**M. Adinarayana**  
Company Secretary &  
G.M. (Legal & Corp. Affairs)

Place : Hyderabad  
Date : 11-08-2012

### **Important Communication to Members**

The Ministry of Corporate Affairs has taken a "Green initiative in the Corporate Governance" by allowing paperless compliances by the companies and has issued circulars stating that service of notice / documents including Annual Report can be sent by e-mail to its members. To support this green initiative of the Government in full measure, members who have not registered their e-mail addresses, so far, are requested to register their e-mail addresses, in respect of electronic holdings with the Depository through their concerned Depository Participants. Members who hold shares in physical form are requested to intimate their e-mail addresses to the Company / Registrars and Transfer Agents M/s. Venture Capital & Corporate Investments Limited.

## DIRECTORS REPORT AND MANAGEMENT DISCUSSION & ANALYSIS

### To the Members

Your Directors are pleased to present the 29th Annual Report together with the audited accounts of the Company for the year ended on 31st March, 2012.

### Operating Results:

You will be pleased to note that during the year under review, the API division exhibited a record growth in revenues, aggregating to forty percent as compared to 2011. The revenues from this division recorded an all-time high of ₹148 Crores from ₹106 Crores (2010-11). While a part of this absolute increase is attributable to the depreciation in the value of Indian Rupee vis-à-vis the US Dollar, it cannot be denied that the division has turned out one of its best performances.

In competition with the API division, the oncology segment of the finished dosage formulation division has also recorded an impressive performance. The revenues from this division grew by 22%, from around ₹121 Crores in 2011 to ₹148 Crores in 2012. The exports of finished dosage pharmaceutical formulations also exhibited a robust growth of 30%, recording a revenue base of ₹66Crores (2011-12) as against ₹51 Crores (2010-11). The other business segments also performed well, resulting in an overall growth in revenues of 15%.

The following is a summary of the company's performance during the financial year 2011-2012:

₹ in lakhs

| Particulars of Revenues*              | 2011-2012     | 2010-2011     |
|---------------------------------------|---------------|---------------|
| API Division                          | 14,798        | 10,631        |
| Finished Dosage Formulations Division | 37,047        | 34,312        |
| Job Work                              | 896           | 1,098         |
| Other Income                          | 3,168         | 2,401         |
| <b>TOTAL</b>                          | <b>55,909</b> | <b>48,442</b> |

\*consolidated revenues.

The company's operations for the year resulted in a surplus of ₹8,251 lakhs (as compared to ₹6,673lakhs for the financial year 2010-2011). Your Directors have decided to make the following adjustments from out of the surplus :

₹ in lakhs

| Particulars                                 | 2011-2012    | 2010-2011    |
|---|--------------|--------------|
| Surplus after operational expenditure       | 8,251        | 6,673        |
| Provision for taxes                         | 1,658        | 1,496        |
| Provision for deferred tax                  | 380          | -174         |
| <b>Net surplus carried to Balance Sheet</b> | <b>6,213</b> | <b>5,351</b> |
| Interim Dividend declared / paid            | 934          | 563          |
| Tax on distribution of income               | 152          | 94           |
| Transfer to General Reserves                | 700          | 400          |
| <b>Surplus carried to Balance Sheet</b>     | <b>4,427</b> | <b>4,294</b> |



#### **Dividend:**

Your Directors had recommended and paid an interim dividend of ₹3.00 per equity share (last year - ₹2.00 per equity share) during February, 2012. Your Directors recommend that this may be treated as the final dividend and the recommendation / payment ratified.

#### **Review of 2012 performance:**

##### **API Division:**

Your Directors are pleased to record that the API division has established an excellent growth of 40% during the year under review. While some amount of this growth is attributable to the volatile exchange rate fluctuations, it is a matter of comfort that the division could register a stellar performance during the year. Domestic sales grew by 35% (from ₹23 Crores in 2011 to ₹31 Crores in 2012) while exports recorded a growth of 41% - from ₹83 Crores in 2011 to ₹117 Crores in 2012.

Your management views this segment as one of the growth drivers and therefore, continues to examine the feasibility of further strengthening the segment in terms of new products and identification of new markets and customers.

As a part of the capital expansion plans that were taken up during the last couple of years, construction of dedicated manufacturing blocks for Glatiramer Acetate have since been completed and are presently undergoing validation exercises.

Emphasis is laid on manufacture of high value niche and specialty APIs which would boost the revenues from this segment. To this end, several Drug Master Files are being filed in various countries which would enable the customers world-wide to access and procure quality products manufactured in this segment. Through captive consumption, the API division also contributes to the revenues of the finished dosage pharmaceutical formulations segment as well. This integration has resulted in a significant value addition to the business as a whole.

The manufacturing facilities of the Division continue to enjoy several regulatory approvals including those from **US FDA**, **Australian TGA** as well as **ISO:14001** certification for its environmental management efforts. Your management has always regarded the environment with utmost respect and each and every action is planned to ensure nil or least damage to the environment.

The Company continues to record satisfactory progress in the matter of regulatory filings. The table given in **Annexure A** to this report indicates the updated status relating to filing of Drug Master Files.

Establishment of both the dedicated manufacturing blocks planned for Mylan Inc., are since complete and are undergoing validation exercises. These blocks would be put to use in due course of time.

##### **Finished Dosage Formulations Division :**

Over-coming the flattish growth that this division recorded in 2011, the division exhibited an over-all growth of 22%. Among the several sub-segments, oncology segment grew by 22% (revenues of ₹148 Crores during 2012 as against ₹121 Crores during 2011), the non-oncology segment grew by 15% (revenues of ₹24 Crores during 2012 as against ₹21 Crores during 2011), and exports grew by 29% (revenues of ₹66 Crores during 2012 as against ₹ 51 Crores during 2011), and third party sales grew by 41% - from a revenue base of ₹17 Crores during 2011 to ₹24 Crores during 2012. The aggregate revenues from this Division recorded ₹283 Crores (as against ₹232 Crores last year) - recording an increase of about 22%. These figures, however, do not include the revenues from the US retail business.

While your company has established itself as a strong player in the oncology segment, and as one of the fastest growing companies in the pharma space, the growing competition, drying up of the product pipe-line and impending regulations relating to price control etc. are some factors which are causing a certain amount of anxiety. As a research based company, **NATCO** respects intellectual property and rights associated therewith. Your company also strives to make available the latest generation medicines at an affordable price to the suffering masses. While generic companies - such as **NATCO** - can manufacture and sell equally effective and efficient drugs as compared to those of the innovator - albeit, at a fraction of the price of the innovator's drug - the patent protection afforded by the Indian laws does not permit launch of such drugs.

In respect of a molecule used in the treatment of kidney and liver cancers, your company had approached the innovator for a voluntary license to market its product in India. On its denial by the innovator, your company has invoked the relevant provisions of the Indian Patents Act and sought a compulsory license. The Director General of Patents and Trade Marks had heard the case and had granted your company a compulsory license to market the product in India. As a result, your company is able to market this drug at a price which is 97% cheaper than the innovator's price. Incidentally, your company became the first company in India to have been granted the compulsory license.

The pipeline of new drugs in the oncology segment is very thin. In addition, competition in this arena has been intense and severe. Of-late, competitors and some of the multi-national companies as well have begun to look at price-cuts as a means of shoring up their market size.

The much awaited Drug Pricing Policy is expected to be announced and this may impose price restrictions on some of our products.

The forthcoming year 2012-13, viewed in the context of these factors, looks to be extremely demanding and tough. The grant of compulsory license does make available hitherto unexplored markets, but competition is catching up on this front as well.

Despite these issues, we expect the segment to do well and maintain its growth. In this context, your company is aiming to establish a strong base in the regulatory markets. To this end, the company needs to work closely with its marketing partners and ensure that the fruits of labor are properly received. This would, inter-alia, mean, readiness with manufacturing facilities, production capabilities, quality parameters and logistics. Simultaneously, your company also aims to sustain its leadership position in Oncology segment in the country. The Company needs to examine the possibility of fully exploiting the compulsory licensing mechanism and consider additional launches in the Oncology segment and other therapeutic segments to augment its revenues and profitability.

During the year under review, the Company launched Sorafenat 200 mg tablets, Desifer 100 and 400 mg tablets, Rasagin 0.5 and 1 mg. tablets and Dorinosa 500 mg. injection in lyophilized form.

#### **Branded Generics & Institutional Sales :**

Billing for the supplies (covering both manufacturing and billing) of branded generics and generics continue to be made from the duty free zones on contract manufacturing basis. It is the intention of the company to gradually exit from this not-so-lucrative business.

The company is looking towards establishing itself in new niche markets such as Brazil, Venezuela etc. The company has established a small distribution business in Brazil (through a step-down subsidiary called NATCO Farma Do Brasil) with an intention to effect product registrations and sell company's products in the region. While the registration of its products is being followed up, as an interim measure, the subsidiary has taken up the distribution of medicated wet wipes in Brazil. These products have been launched in April, 2012.

The Institutional sales segment continues to suffer from severe competition. However, with supplies from duty free zones, efforts are being made to be competitive for bagging business from this segment. Dependence on this segment is being brought down, albeit, in a phased manner.

#### **Supply & Distribution Agreements :**

Your company has been consistently working towards taking the several supply and distribution agreements that it has executed with its marketing partners to their logical conclusion. These agreements are expected to evolve into revenue streams in the next couple of years. Your company has completed the capital expansion required to meet the supplies arising out of these agreements.

Your company is also exploring the possibility of similar marketing ventures for other products as well.

#### **Manufacturing facilities**

Both the units in Dehradun in the State of Uttarakhand are fully functional. Together, products worth ₹120 Crores have been sold from these plants.



The company has started exporting from its Dehradun plant as well. During the year ended on 31<sup>st</sup> March, 2012, exports from both the Dehradun plants would be around ₹63 lakhs.

With the tax benefits available to these units being tapered off, the company proposes to establish a new manufacturing facility for the finished dosage pharmaceutical formulations at Gauhati in the State of Assam. This location is eligible for income-tax and excise duty benefits and establishment of this plant would enable the company to continue to claim the tax benefits. This plant is likely to be completed before end March, 2013.

All the expansion plans at Kothur plant have since been completed and are in various stages of validation / trial runs. Modernization of the existing facilities at NagarjunaSagar is being planned.

#### **Issue of securities :**

To part finance the capital investments that were being made at various manufacturing facilities, the Company has placed 30 lakh equity shares with qualified institutions. The shares have been placed at ₹225/- each (including the face value of ₹10/- per share). These shares have since been listed on the Stock Exchanges.

#### **US Pharmacy business:**

Save Mart Pharmacy, Lancaster, Pennsylvania, USA, - which was acquired through the company's wholly owned subsidiary, **NATCO** Pharma Inc. - had, for the year ended on 31<sup>st</sup> March, 2012, recorded a net profit, after tax, of **₹79 lakhs** (against ₹176 lakhs previous year) after accounting for interest of **₹59 lakhs** (previous year ₹80lakhs) payable to the Company on the loans advanced by the parent company. The subsidiary has also repaid **₹343 lakhs** (₹505 lakhs previous year) out of the loan advanced by the Company.

#### **Abbreviated New Drug Applications (ANDAs) :**

**Annexure B** to this report details the latest status on the abbreviated new drug applications filed by your Company.

In addition to the existing First-to-file opportunities, the Company filed an ANDA and obtained first to file status for the Lapatinib Ditosylate (Brand Name :Tykerb®) which could result in a 180-day exclusive marketing rights. As on date, the Company has five Para IV challenges, out of which, four have been accorded the first-to-file status. The company has entered into a tie-up with Lupin Limited for this molecule

The Company continues to sell Granisetron, Anastrozole and Ondansetron tablets in USA and Canada and has been receiving royalties from its constituents as per the agreements in force.

#### **Research Efforts and Intellectual Property**

**Annexure C** to this report details the latest status on the various patent applications filed by the Company.

The company's R & D centre (**NATCO** Research Centre - **NRC**) continues to work on several compounds simultaneously, and is engaged in the development of molecules, processes, products and scaling-up.

Having received all necessary approvals, Phase II clinical trials are about to begin for your company's new molecule - NRC 19. Another compound - NRC 2694 - is being evaluated for commissioning of Phase I clinical trials.

Work on evaluation of - (a) several compounds for their efficacy in disease management and control, (b) various analogues useful in the field of anti-cancer, anti-depressant and anti-ulcer therapies, and (c) new drug delivery systems - are continuously evaluated for taking up for further development.

#### **Contract Manufacturing:**

The revenues from contract manufacturing activity continue to be stable and the company maintains and continues to serve its clients in this category to their complete satisfaction.

#### **Corporate Social Responsibilities (CSR):**

The company is proud to be associated with **NATCO** Trust, which continues to actively pursue its social welfare activities. The Trust has expanded its activities to cover new geographical locations, situated near the company's manufacturing locations. Details on the activities of the Trust are available elsewhere in this Report.



The Company's in-house quarterly magazine *Spandanaf* continues to receive applause.

**Financial Matters :**

The Company has no derivative contracts outstanding as at 31<sup>st</sup> March, 2012.

**Employees Stock Option Scheme :**

During the year, the company had framed NATSOP 2010 (NATCO Employees Stock Option Plan, 2010). The company had granted 236,551 options to certain employees (@ 10/- per each option, which, when vested and exercised, would result in allotment of one equity share per option) under the said Scheme during August, 2011. Pending completion of formalities relating to grant, no charge has been considered in the Profit & Loss Account for the year ended on 31<sup>st</sup> March, 2012.

**NATCO Organics Limited :**

**NATCO** Organics Limited has commenced production of cyto-toxic APIs at its manufacturing facility near Chennai. Under an arrangement, the company would procure these APIs from **NATCO** Organics Limited and would convert them into finished dosage pharmaceutical formulations for sale in the open markets.

In line with its commitment to this project, the company has opted to convert the advances made by it to **NATCO** Organics into equity shares of **NATCO** Organics Limited.

**Directors :**

Mr. G.S. Murthy, Dr. B.S. Bajaj and Dr. Jasti S. Rao would be retiring at the ensuing Annual General Meeting and are eligible for re-appointment.

During May, 2012, the Export Import Bank of India had nominated Mr. T.V. Rao as a Director on the Board of the Company in place of Mr. C. P. Ravindranath. Your Directors place on record their sincere appreciation of the services rendered by Mr. C.P. Ravindranath during his tenure as a Director on the Board of the Company.

Mr. Nitin Jagannath Deshmukh has joined the Board as an additional Director effective 9<sup>th</sup> February, 2012. Mr. Deshmukh, who is the Chief Executive Officer - Private Equity of Kotak Investment Advisors Limited brings with him an enormous amount of experience relating to life sciences industry and your Directors opine that his addition to the Board would help the Company reach newer heights of performance.

A Notice has been received from a Member, along with requisite fee, proposing the name Mr. Nitin Jagannath Deshmukh for appointment as Director of the Company.

**Directors Responsibility Statement :**

In compliance with the provisions of Section 217(2A) of the Companies Act, 1956, the Directors confirm that :

- a) in the preparation of annual accounts, the applicable accounting standards have been followed;
- b) the Directors have selected such accounting policies as mentioned in Schedule 18 of the Annual Accounts and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the financial year and of the profit and loss of the Company for that year;
- c) the Directors have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the aforesaid Act for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities; and
- d) the annual accounts have been prepared on a going concern basis.

Item # 2 of Notes to the Accounts would adequately clarify the observations made by the Statutory Auditors in their report dated 28<sup>th</sup> May, 2012, pertaining to non-recognition of MAT credit available.

**Statutory Auditors :**

M/s. Walker, Chandio&Co., Chartered Accountants, Hyderabad, the statutory auditors of the Company hold office till the conclusion of the ensuing Annual General Meeting, and are eligible for re-appointment. The Board recommends their reappointment.

**Internal Auditors :**

M/s. Seshachalam&Co., Chartered Accountants, Hyderabad, who have been appointed by your Board to carry-out internal audit of the Company last year will be continuing as internal auditors for this year as well.

**Cost Audit :**

The Government of India had prescribed maintenance of cost accounting records and ordered cost audit under the provisions of Section 233B of the Companies Act, 1956. in respect of your Company s operations. Your Company is following the prescribed guidelines in maintaining the requisite records.

**Particulars of Employees :**

The information required under Section 217(2A) of the Companies Act, 1956 and the Rules there under in respect of the employees who were in receipt of remuneration in accordance with the specified limits is attached to forms part of this report.

**Particulars regarding Energy conservation, etc.**

Information on conservation of energy, technology absorption, foreign exchange earnings and outgo as required to be disclosed under the provisions of Section 217(1)(e) of the Companies Act, 1956 is enclosed and forms part of this report.

**Listing Information :**

The securities of the Company are listed with and are traded in, dematerialized form on the Bombay Stock Exchange and the National Stock Exchange. The annual listing fees were paid to each of these exchanges for the year 2011-2012. Facilities for dematerialization have become fully operational. The ISIN No. of the Company is INE987B01018.

**Fixed Deposits :**

There are no outstanding and overdue deposits as at 31<sup>st</sup> March, 2012. The Company had not accepted any deposits during the year.

**Acknowledgements :**

Your Directors place on record their deep sense of gratitude for the support, cooperation and guidance received by the Company from various departments / agencies of the Central and State Governments, the consortium of banks led by Allahabad Bank as also to Export-Import Bank of India, Yes Bank Limited, and Axis Bank Limited. The Directors also thank the shareholders, officers and staff of the Company for their excellent cooperation and dedicated work.

for and on behalf of the Board  
**NATCO** Pharma Limited

**V.C. Nannapaneni**

Chairman & Managing Director

Hyderabad,  
28<sup>th</sup> May, 2012

Statement of particulars of employee pursuant to the provision of Sec 217(2A) of the Companies Act, 1956 read with the Companies (Particulars of Employees) Rules, 1975 as amended.

| Name of Employee       | Age | Designation                  | Gross Remuneration | Qualification   | Experience in years | Date of Commencement | Particular of last Employment        |
|------------------------|-----|------------------------------|--------------------|---|---------------------|----------------------|--------------------------------------|
| Sri V C Nannapaneni    | 66  | Chairman & Managing Director | 1,06,08,000        | M.S. (Pharmaceutical Administration)  | 43                  | 03-10-1981           | Time Cap Labs Inc.,                  |
| Sri Rajeev Nannapaneni | 35  | Director & COO               | 84,00,000          | B.A. in Quantitative Economics & B.A. in History from Tufts University, USA | 14                  | 03-07-2000           | Merill Lynch and Natco Systems LL.C. |

**ANNEXURE A**

**ACTIVE PHARMACEUTICALS INGREDIENTS**

Status of DMFs filed - March 2012

| Therapeutic Segment                    | No. of Products |                   | European Countries |                   | USA       |                   | Rest of the World |                   | Total No. of DMF(s) Submitted |                   |
|--|-----------------|-------------------|--------------------|-------------------|-----------|-------------------|-------------------|-------------------|-------------------------------|-------------------|
|  | Filed           | Under Preparation | Filed              | Under Preparation | Filed     | Under Preparation | Filed             | Under Preparation | Filed                         | Under Preparation |
| Anti Emetic                            | 4               | 2                 | 103                | 1                 | 4         | 1                 | 4                 | 0                 | 111                           | 2                 |
| Anti Migraine                          | 5               | 2                 | 118                | 2                 | 6         | 2                 | 2                 | 1                 | 126                           | 5                 |
| Anti Depressants                       | 5               | 0                 | 215                | 0                 | 2         | 0                 | 14                | 0                 | 231                           | 0                 |
| Anti Ulcer                             | 3               | 0                 | 120                | 0                 | 4         | 0                 | 2                 | 2                 | 126                           | 2                 |
| Anti Fungal                            | 1               | 1                 | 46                 | 1                 | 0         | 1                 | 1                 | 0                 | 47                            | 2                 |
| Anti Neoplastic                        | 2               | 3                 | 34                 | 5                 | 1         | 4                 | 0                 | 0                 | 35                            | 9                 |
| Anti Cancer                            | 3               | 8                 | 110                | 8                 | 4         | 3                 | 0                 | 1                 | 114                           | 12                |
| Benign Prostatic Hyper Trophy          | 1               | 0                 | 0                  | 0                 | 1         | 0                 | 0                 | 0                 | 1                             | 0                 |
| Bronchodilator                         | 1               | 0                 | 66                 | 0                 | 1         | 0                 | 0                 | 0                 | 67                            | 0                 |
| For the treatment urinary incontinence | 1               | 0                 | 11                 | 0                 | 1         | 0                 | 0                 | 1                 | 12                            | 1                 |
| Anxiolytic                             | 0               | 1                 | 0                  | 1                 | 0         | 1                 | 0                 | 1                 | 0                             | 3                 |
| Bone resorption inhibitor              | 2               | 0                 | 126                | 0                 | 3         | 0                 | 0                 | 0                 | 129                           | 0                 |
| Hyperphosphataemia                     | 1               | 0                 | 0                  | 0                 | 1         | 0                 | 0                 | 0                 | 1                             | 0                 |
| Antiparkinsonian                       | 1               | 0                 | 0                  | 1                 | 1         | 0                 | 0                 | 0                 | 1                             | 1                 |
| <b>TOTAL</b>                           | <b>30</b>       | <b>17</b>         | <b>949</b>         | <b>19</b>         | <b>29</b> | <b>12</b>         | <b>23</b>         | <b>6</b>          | <b>1001</b>                   | <b>37</b>         |



**Status of CEP - March 2012**

| Therapeutic category          | No. of CEP |              | CEP      |          |              |
|-------------------------------|------------|--------------|----------|----------|--------------|
|                               | API        | Under filing | Filed    | Approved | Under review |
| Anti Emetic                   | 1          | 1            | 1        | 1        | 0            |
| Anti Depressants              | 2          | 0            | 2        | 2        | 0            |
| Anti Migrane                  | 1          | 2            | 1        | 1        | 1            |
| Anti Ulcer                    | 2          | 1            | 2        | 2        | 0            |
| Benign Prostatic Hyper Trophy | 0          | 0            | 0        | 0        | 0            |
| Anti Fungal                   | 0          | 0            | 0        | 0        | 0            |
| Antiparkinsonian              | 0          | 0            | 0        | 0        | 0            |
| Anti Cancer                   | 1          | 0            | 1        | 1        | 0            |
| Bronchodilator                | 1          | 0            | 1        | 1        | 0            |
| <b>TOTAL</b>                  | <b>8</b>   | <b>4</b>     | <b>8</b> | <b>8</b> | <b>1</b>     |

**ANNEXURE B**

**Status of Regulatory Filings (Finished Products-Formulations) - 2012**

**Status of ANDA's Filled in USA - May 2012**

| Therapeutic category          | No. of Products | Filed     | Under filing | No. of ANDAs | APPROVED |
|-------------------------------|-----------------|-----------|--------------|--------------|----------|
| Anti-Depressants              | 1               | 1         | 0            | 1            | 1        |
| Anti Emetic                   | 2               | 2         | 0            | 2            | 2        |
| Benign Prostrate Hyper Trophy | 1               | 0         | 1            | 1            | 0        |
| Anti-Cancer                   | 12              | 4         | 8            | 12           | 2        |
| Anti-Malarial                 | 2               | 2         | 0            | 2            | 2        |
| Vitamin                       | 1               | 1         | 0            | 1            | 0        |
| Anti Ulcer                    | 4               | 2         | 2            | 4            | 0        |
| Anxiolytics                   | 1               | 1         | 0            | 1            | 0        |
| Anti cholinergic              | 3               | 2         | 1            | 3            | 1        |
| Muscle Relexant               | 1               | 1         | 0            | 1            | 0        |
| Anti hypercholestrolemia      | 1               | 1         | 0            | 1            | 0        |
| Anti Migrane                  | 3               | 2         | 1            | 3            | 0        |
| Hyperphosphataemia            | 1               | 1         | 0            | 1            | 0        |
| Immunomodulator               | 1               | 1         | 0            | 1            | 0        |
| Egeroics                      | 1               | 1         | 0            | 1            | 0        |
| Parkinson's disease           | 1               | 0         | 1            | 1            | 0        |
| Antiviral                     | 1               | 1         | 0            | 1            | 0        |
| Antihypertensive              | 2               | 0         | 2            | 2            | 0        |
| Antiretroviral                | 2               | 0         | 2            | 2            | 0        |
| <b>TOTAL</b>                  | <b>41</b>       | <b>23</b> | <b>18</b>    | <b>41</b>    | <b>8</b> |

Status of ANDA's Filled in European Union - May 2012

| Therapeutic category | No. of Products | Filed    | EU Dossiers under filing | Dossiers  | APPROVED |
|----------------------|-----------------|----------|--------------------------|-----------|----------|
| Anti-Cancer          | 7               | 4        | 3                        | 7         | 1        |
| Anti Emetic          | 1               | 1        | 0                        | 1         | 1        |
| Anti-Migraine        | 2               | 2        | 0                        | 2         | 1        |
| Antihypertensive     | 1               | 0        | 1                        | 1         | 0        |
| <b>TOTAL</b>         | <b>11</b>       | <b>7</b> | <b>4</b>                 | <b>11</b> | <b>3</b> |

Status of ANDA's Filled in Canada - May 2012

| Therapeutic category | No. of Products | Filed    | Under filing | ANDSs     | APPROVED |
|----------------------|-----------------|----------|--------------|-----------|----------|
| Anti-Depressants     | 1               | 1        | 0            | 1         | 1        |
| Anti Emetic          | 1               | 1        | 0            | 1         | 1        |
| Anti cancer          | 7               | 1        | 6            | 7         | 2        |
| Anti migraine        | 2               | 0        | 2            | 2         | 0        |
| Anxiolytics          | 1               | 0        | 1            | 1         | 0        |
| Antihypertensive     | 1               | 0        | 1            | 1         | 0        |
| <b>TOTAL</b>         | <b>13</b>       | <b>3</b> | <b>10</b>    | <b>13</b> | <b>4</b> |

**ANNEXURE C**

Status of Patents granted and patent applications pending

| <b>A. Granted</b>        | Indian    | International |
|--------------------------|-----------|---------------|
| New Chemical Entities    | 1         | 24            |
| API - Process            | 57        | 3             |
| Finished Dosage Products | 15        | 2             |
| Natural products         | 3         | 0             |
| Design                   | 1         | 3             |
| <b>TOTAL</b>             | <b>77</b> | <b>32</b>     |

| <b>B. Applied</b>        | Indian     | International |
|--------------------------|------------|---------------|
| New Chemical Entities    | 7          | 148           |
| API - Process            | 122        | 48            |
| Finished Dosage Products | 17         | 19            |
| Natural Products         | 3          | 0             |
| Design                   | 2          | 4             |
| <b>TOTAL</b>             | <b>151</b> | <b>219</b>    |



Information under Section 217(1)(e) of the Companies Act, 1956, read with Companies (Disclosure of Particulars in the Report of the Board of Directors) Rules 1988, and forming part of Directors Report.

#### FORM - A

Form for disclosure of particulars with respect to conservation of energy.

##### A. POWER & FUEL CONSUMPTION

|                           | For the Year<br>ended<br>31st Mar 12 | For the Year<br>ended<br>31st Mar 11 |
|---------------------------|--------------------------------------|--------------------------------------|
| 1 Electricity             |                                      |                                      |
| a. Purchased Units        | 24784282                             | 25062486                             |
| Total Amount (₹)          | 114213908                            | 99956912                             |
| Rate / Unit (₹)           | 4.61                                 | 3.99                                 |
| b. Own Generation:        |                                      |                                      |
| i) Through Diesel         |                                      |                                      |
| Generator Units           | 5247390                              | 2527158                              |
| Units/ltr.of Diesel Oil   | 3.19                                 | 3.25                                 |
| Cost/Unit (₹)             | 15.35                                | 14.56                                |
| 2 Coal D/C Grade          |                                      |                                      |
| Quantity (tonnes)         | 5779                                 | 5731                                 |
| Total Amount (₹)          | 39537779                             | 36476622                             |
| Average rate per tonne(₹) | 6842                                 | 6365                                 |
| 3 Furnace Oil             |                                      |                                      |
| Quantity (LTS)            | 207517                               | 389254                               |
| Total Amount (₹)          | 8657957                              | 11820841                             |
| Average rate per Ltr. (₹) | 41.72                                | 30.37                                |

#### FORM - B

Form for disclosure of particulars with respect to absorption

##### RESEARCH AND DEVELOPMENT (R & D)

- |   |  |
|---|--|
| 1. Specific areas in which R & D Carried out by the Company | Work on development of two new molecules is in progress. One of the molecules is ready for Phase II clinical trails.   |
| 2. Benefits derived as a result of the above R & D          | Successful completion of the clinical trials and subsequent commercialization would result in immense value addition to the company and would provide relief to suffering masses.  |
| 3. Future plan of action                                    | R & D efforts, in collaboration with multinational companies and established research organizations and universities towards development of new molecules and improvements in process along with new delivery systems will continue.<br><br>The Company has also planned initiatives in novel energy development projects. |

|    |   | AMOUNT (₹ in lakhs)            |                                |
|----|---|--------------------------------|--------------------------------|
|    |   | For the Year ended 31st Mar 12 | For the Year ended 31st Mar 11 |
| 4  | Expenditure on R & D  |                                |                                |
| a) | R & D Expenditure   | 2285.66                        | 1929.87                        |
| b) | Total R & D expenditure as Percentage of total Turnover (Including capital expenditure) | 5.29                           | 5.92                           |

**TECHNOLOGY ABSORPTION, ADAPTATION AND INNOVATION:**

|   |   |  |
|---|---|--|
| 1 | Efforts in brief, made towards technology absorption, adaptation  | Technologies developed in in-house R & D for the manufacture of various bulk drugs Intermediates & Formulations stabilized and scaled up for commercial production.    |
| 2 | Benefits derived as a result of the above efforts   | a) Stabilization of process resulted in cost savings and increased productivity.<br>b) Market presence in the formulations segment to cover all branches of medicines. |
| 3 | In case of imported technology (imported during the last 5 years reckoned from the beginning of the financial year) | Not Applicable   |

**FORM - C**

**FOREIGN EXCHANGE EARNINGS AND OUTGO**

|    |   | (₹ in thousands)               |                                |
|----|---|--------------------------------|--------------------------------|
|    |   | For the Year ended 31st Mar 12 | For the Year ended 31st Mar 11 |
| A) | Earnings in Foreign Exchange<br>Export of goods calculated on F.O.B basis | 1790196                        | 1300936                        |
| B) | CIF value of Imports<br>Raw Materials                                     | 167475                         | 169596                         |
|    | Capital Goods & Consumable stores   | 220712                         | 153509                         |
| C) | Expenditure in Foreign Currency towards<br>Travelling                     | 11665                          | 5039                           |
|    | Commission  | 20919                          | 3040                           |
|    | Others  | 90911                          | 113524                         |

for and on behalf of the Board  
**NATCO PHARMA LIMITED**

Place : HYDERABAD  
Date : 28<sup>th</sup> May, 2012

**V.C. NANNAPANENI**  
Chairman & Managing Director

## Management of Risks at NATCO

The following broad categories of risks are likely to be encountered by the Company in its' day-to-day operations :

- a) Property Risks;
- b) Operational Risks;
- c) Environmental Risks;
- d) Regulatory Risks;
- e) Policy Risks; and
- f) Other risks.

These risks are evaluated on a continuous basis and remedial measures are initiated and suitable follow-up action is taken from time to time.

Given below is a brief description of these risks and the strategies that are adopted by the Company to counter these risks:

### **Property and resource related risks:**

All the fixed assets of the Company, including stocks of finished goods, raw materials, packing materials and work-in-process are adequately insured, and in most of the cases, at replacement values. All the employees of the Company are also insured against accidents and in some case, against ill-health. All incoming and outgoing raw material, packing material and finished products are adequately insured against various possible perils.

### **Human Resources**

The company believes that human resources is its biggest asset and recognizes that retaining and nurturing talented human resources has always been a challenge. While the employee costs are increasing every year, the company has taken steps to retain talent by providing reasonably appreciable avenues of growth, along with suitable compensation structures. Talent within the company is continuously identified and nurtured to ensure that the employees get opportunities to excel themselves and efforts are made to create and preserve a habitable working environment. In this direction, the remuneration structure is suitably designed, including a component in the form of employee stock options.

### **Products / Markets :**

Your company has a predominant presence in oncology segment with a basket of around 20 drugs. Operating in this segment has proved to be highly profitable, with good margins. However, realizing the pit-falls of dependence on a single segment, efforts are being made by the Company to reduce such dependence to the minimum. Constant efforts are made to widen the business horizon and to enter niche markets and introduce niche products.

The company prides itself in being numerounoin oncology segment, while at the same time, making efforts to diversify and introduce new products in new therapeutic areas.

### **Competition :**

As one operating in an open economy, the Company understands and realizes that competition is omni-present. The industry sector and therapeutic segment in which your company operates are no exception, compelling your company to devise strategies to ward off or minimize the effect of competition. Steps being taken in this direction include, among others, increasing rapport with the medical profession and generally spreading the knowledge about the company's products



by organizing continuous knowledge programs for the medical profession. The company has thus created for itself a niche position among the companies operating in this segment.

In line with this policy, the company continues to pursue a very aggressive pricing policy for some of its products, and continues its drug donation program.

The company has always stood for quality in every aspect of its operations. Standards of manufacture and quality play a vital role in managing competition and retaining and developing customer base. By maintaining its facilities at world standards, and continuously upgrading them to suit international standards and US FDA requirements, NATCO is able to not only retain but widen its international customer base. Regular audits are undertaken by customers and the observations made in these audits are duly attended to.

**Price Controls :**

The pharmaceutical industry in India is subject to price controls and the prices of some products are determined by the Government. Though only some products manufactured by NATCO are likely to be a subject matter of price control mechanism under the Indian law, nevertheless, governmental compulsions for reduction in the prevailing prices remains a risk. Being a pharma company with a human touch, NATCO would abide by the legislative or governmental compulsions, if any. In this direction, attempts are made to offset such losses by more effective and efficient management of its resources, controlling costs and launching of superior and new products.

**Litigations :**

The company has made ambitious plans to enter the US and European markets and has, in this direction, initiated filing of several abbreviated new drug applications. However, this strategy is fraught with high legal risks and continuous litigation. The company aims to minimize or neutralize these risks by a unique system of tie-ups where the litigation risks are taken-up by the marketing partner rather than the Company itself. In addition, suitable and adequate product liability insurance is also obtained.

**Regulatory Observations:**

Regulatory approvals form the basic strength of the Company and utmost care is taken to ensure that these approvals are valid, in full force and are renewed from time to time. To this end, all observations made by the Regulatory Auditors and Customer Auditors are taken seriously and immediate action is initiated to rectify the lapses, if any.

**Global and Environmental Risks :**

The company is not immune to changes that the world is undergoing - be it economic, political or otherwise. Owing to global economic melt-down, the company could not achieve the targeted growth levels. As far as practicable and possible, the Company aims to keep itself insulated from these risks by entering into strategic alliances with partners in other countries. In case of such tie-ups, generally speaking, the cost of litigation and the cost of regulatory filings, wherever applicable, would be to the account of the partner.

Owing to the global slowdown, the Company has been cautious in its plans for expansion and growth and is carefully evaluating the various business opportunities available to it.

**Foreign Currency transactions and associated Risks :**

The company continues its policy of not hedging any of its import / export transactions. It has been the company's experience that such a policy will, over a period of time, neutralizes the risks associated with foreign currency transactions.

**Economic and Financial Risks :**

The company is operating in an environment where, as of now, financial costs are rising. The company is attempting to reduce the financial costs by contracting new loans at cheaper rates. Wherever possible, attempts are made to enhance the product pricing to cover rising costs.

The company has a system of re-cycling the various solvents that it uses to ensure improved productivity and yields, and at the same, cutting costs.

The company's API plant is a zero discharge facility (which does not cause any pollution). Adequate and suitable insurance cover is available to cover public liability and general commercial liability risks.

**Energy and associated risks :**

Power shortages and unscheduled power cuts continue to plague the State of Andhra Pradesh, in which the company's major manufacturing facilities are situated. As a result, the company has been forced to go in for its own generation of power, albeit, at a high cost. This has impacted the overheads adversely, further shrinking the already thin margins. This is a risk that the company cannot avoid unless it goes in for its own captive generating stations. At this point of time, this measure seems to be unviable.

**Other Risks :**

In addition, the Company faces distribution, storage, contamination, counterfeit and risks associated with patents and intellectual property rights. The company is in the process of evolving a strategic mechanism which will enable it to deal with these risks in course of time.

## CORPORATE SOCIAL RESPONSIBILITY



natcotrust

*To learn to live  
To live and learn*

### About Natco Trust

NATCO TRUST is the corporate social responsibility division of NATCO Pharma Ltd, and it is based in Hyderabad. The core areas of the Trust are Health, Hygiene, Sanitation, Water, Education, Livelihoods, Institutional support and Need Based Community Infrastructure. It operates in the vicinity of wherever it has a business presence. Since its inception in 1995, the Trust has been evolving and constantly revisiting its role in society.

Our Corporate Social Responsibility Statement and Principles define our approach towards the society- the most important stakeholder in the development of the organization. We at NATCO endeavor to make a positive contribution to the underprivileged by supporting a wide range of socio-economic programs including education, health, sanitation, hygiene, livelihood and other community based initiatives. Many of these community projects and programs are driven by active participation of different stakeholders like the promoters, the employees, the suppliers, the government etc

Currently Natco Trust operates in 4 districts namely, Mahaboobnagar, Nalagonda, Guntur and Hyderabad in the state of Andhra Pradesh. It aims to reach these communities in the areas of education, health, water, sanitation, livelihoods and community based infrastructure support.

Natco Pharma Limited has bagged the prestigious Golden Peacock Award for Corporate Social Responsibility for the year 2012 for the initiatives and efforts made by the company to improve the quality of life of the underprivileged.

The award was presented by H.E. Mr Juma Al Majid, Chairman of Dubai Economic Council & Founder Chairman of Juma Al Majid Group, Lt Gen J S Ahluwalia, PVSM (retd), President, Institute Of Directors and Saleh Janeeh, Chairman Dubai Quality Group. It has been witnessed by the distinguished gathering of business leaders, jurists, academics, environmentalists, economists, legislators and policy makers during the Dubai Global Convention incorporating the 7th International Conference on Social Responsibility, held on 25th April 2012.

### Areas of Intervention:-

Natco Trust has initiated the interventions in different core activities in a phased manner in different villages, based on the need and urgency to mitigate the challenges faced by the community with their active participation.

### The Trust activities revolve around the following areas:

- 1) Health
- 2) Education
- 3) Livelihood
- 4) Water and Sanitation
- 5) Environment



## 1. Health

Natco Trust is committed to enhance the health and well being of the targeted communities. It attempts to improve the health seeking behavior of the communities regarding nutritious food, mother and child health, communicable diseases, preventive mechanisms through community based health services and health education.

### **Natco Mobile Health Clinic:**

**Objective:** Health Services at the door steps of the community

The Natco Mobile Health Clinic (NMHC) serves more than 5000 households with a population of more than 32000 in 16 villages of Peddavura and Chandampet Mandals on a rotation basis with a weekly schedule. It has all the basic equipments and free medicines provided apart from the health services. Health education too is provided to the community.

### **Natco Mobile Health Clinic**

NMHC provides **Primary health care** for the community. The main part of this is to examine the patients and treat them accordingly. The patients who cannot be treated at the NMHC and who need high end care are referred to higher centers at Nalagonda and Hyderabad. NMHC visits home and treats terminally ill patients and others who cannot come to NMHC because of serious disease or very old age.

**NUTRITION CENTER:** As part of the NMHC services Antenatal and postnatal care is provided to the pregnant and lactating mothers respectively. They were treated of the basic ailments like Anaemia...etc and are referred for higher centers for Ultrasound scan, blood investigations and when abnormalities like high Blood pressure, abnormal presentation of foetus, bleeding etc. are detected.

NMHC team works with the government ANM and makes sure that all the antenatal mothers are immunized with 2 doses of TT. Pregnant mothers are advised about the diet, immunization, Family planning<sup>e</sup>etc. Any issues raised by the pregnant and lactating mothers are discussed with them. All pregnant mothers are motivated to go for institutional delivery. They are discouraged to deliver at homes.

**HEALTH EDUCATION:** Apart from the health education provided at the Nutrition centers and Schools the community is also given health education on various matters when they come to NMHC to avail the services, by home visit and also by small gatherings. Advice is given on the ways to prevent seasonal diseases like Typhoid, Malaria, Dengue, Acute gastroenteritis etc. People are advised to boil and filter water before drinking. They are advised to take personal protective measures like using mosquito nets to prevent from the disease spreading mosquitoes biting them.

They are told to fill the water pools with mud so that mosquito larvae will not grow in them. Roads and drainage system are observed in the villages and the people were cautioned about the deleterious effects of water pools and stagnant water in the drainage system due to poor maintenance. This is done in liaison with local leaders, Anganwadi workers, School teachers and village youth. People are also educated about the ill effects of smoking, alcoholism etc,

**IMMUNISATION:** NMHC is actively involved in the immunization program conducted by government ANMs in the villages. NMHC team will be present in the village at the time of immunization. The absent children in a particular month are noted. NMHC team visits their houses and discusses with their parents about the failure to get their children immunized.

**SCHOOL HEALTH:** School children are examined and treated for minor ailments. They were given Albendazole tablets to treat worm infestation. Children are made aware about the personal hygiene and causation of diseases. They are educated about having bath daily, cutting nails, washing hands with soap before eating and after going for toilet etc,. They were told not to insert slate pencils, pencils, match sticks etc into their ears..

**Natco Mobile Health Clinic - age, gender and repeated beneficiaries details for 2011-2012**

| Age              | Male         | Female       | Total        | Old patients | New patients |
|------------------|--------------|--------------|--------------|--------------|--------------|
| 0 -1 years       | 340          | 305          | 645          | 39           | 606          |
| 2-5 years        | 1039         | 869          | 1908         | 937          | 971          |
| 6 - 10 years     | 933          | 874          | 1807         | 935          | 872          |
| 11 - 15 years    | 1517         | 372          | 1889         | 1366         | 523          |
| 16 - 35 years    | 3019         | 3108         | 6127         | 5686         | 441          |
| 36 - 50years     | 2775         | 3361         | 6136         | 5974         | 162          |
| 51-65 years      | 1904         | 2551         | 4455         | 4382         | 73           |
| 66 and above age | 755          | 1238         | 1993         | 1977         | 16           |
| <b>Total</b>     | <b>12282</b> | <b>12678</b> | <b>24960</b> | <b>21296</b> | <b>3664</b>  |

**Natco Mobile Health Clinic - village wise beneficiaries 2011-12**

| Sl.No. | Village Name                         | First quarter | Second Quarter | Third Quarter | Fourth Quarter | Total |
|--------|--------------------------------------|---------------|----------------|---------------|----------------|-------|
| 1.     | Yerra Cheruvu thanda                 | 247           | 529            | 391           | 367            | 1534  |
| 2.     | Chenchu Vani thanda                  | 259           | 240            | 167           | 201            | 867   |
| 3.     | Godumadaka                           | 359           | 356            | 280           | 400            | 1395  |
| 4.     | Nellikla                             | 383           | 396            | 672           | 359            | 1810  |
| 5.     | Pilli Gundla Thanda                  | 320           | 266            | 382           | 217            | 1185  |
| 6.     | Chintala palem                       | 517           | 475            | 527           | 532            | 2051  |
| 7.     | Jal Thanda                           | 468           | 369            | 526           | 470            | 1833  |
| 8.     | Palthi thanda                        | 351           | 170            | 276           | 166            | 963   |
| 9.     | Thangilla Thanda                     | 197           | 112            | 246           | 175            | 730   |
| 10.    | Poolya Thanda                        | 300           | 263            | 163           | 145            | 871   |
| 11.    | Jamma Kota                           | 221           | 295            | 185           | 195            | 896   |
| 12.    | Nagarjuna Peta                       | 285           | 505            | 387           | 331            | 1508  |
| 13.    | Nayakuni Thanda                      | 334           | 507            | 599           | 456            | 1896  |
| 14.    | Thimmai palem                        | 314           | 353            | 431           | 203            | 1301  |
| 15.    | Pedda Munagala                       | 197           | 315            | 292           | 306            | 1110  |
| 16.    | Kambala Pally                        | 261           | 332            | 321           | 253            | 1167  |
| 17.    | AP Residential School                | 160           | 700            | 281           | 268            | 1409  |
| 18.    | NATCO Parenterals division employees | 538           | 478            | 682           | 736            | 2434  |
|        | <b>Total</b>                         | 5711          | 6661           | 6808          | 5780           | 24960 |

**Specialized camps: - School Eye camp in convergence with Dr. Ranga Reddy Lions Eye Hospital, Secunderabad.**

**School Eye camp:** - Apart from the general school health camps through NMHC, specialized health camps being conducted on need base, one such specialized eye camp have been conducted in convergence with Dr. Ranga Reddy Lions eye club, Secunderabad at Natco Government high school, Borabanda, Hyderabad, in which 571 students of class I to V got screened. Provided spectacles to 24 students and referred 4 students to LV Prasad eye institute for further testing and treatment.

### Nutrition centers

Locations: - Nalagonda, Mahaboobnagar and Hyderabad Districts of Andhra Pradesh

Objective: - Prevention of disability and malnutrition, healthy motherhood with healthy baby and institutional delivery.

In the year 2011-12 a new nutrition centre have been initiated, at Borabanda slum of Hyderabad district.

The Nutrition center catered 366 mothers; out of which 104 are pregnant and 130 are lactating mothers in 7 village s i.e, Yerracheruvu thanda, Mekaguda, Nayakuni thanda, Thimmaiah palyam, Chinthalapalyam, Thangalli thanda and Peddamunigala and one urban slum at Hyderabad. Out of 366 beneficiareis 132 were completed one year (the trust supports a beneficiary for a period of one year that is from conception (3<sup>rd</sup> month) to 6 month after delivery). Total deliveries are 156 and out of which 110 are institutional deliveries and 46 are home deliveries supervised by trained local dhai (nurse).

According to NIN (National Institute for Nutrition, Hyderabad) that the Indian women have the deficiency of 430 calories, to fill this gap the center provides nutritional supplementary food (430 calories) consisting of egg, milk, dates, chikki, biscuits, (annexed the weekly menu) for a period of 1 year.

### Details of Nutrition centre beneficiaries 2011-12

| Month        | Pregnant | Lactating | Incoming   | Out going  | Deliveries | Total | Institutional Deliveries | Home Deliveries |
|--------------|----------|-----------|------------|------------|------------|-------|--------------------------|-----------------|
| Apr          | 87       | 89        | 18         | 10         | 14         | 176   | 07                       | 07              |
| May          | 92       | 92        | 13         | 05         | 08         | 184   | 05                       | 03              |
| June         | 83       | 77        | 08         | 32         | 10         | 160   | 07                       | 03              |
| July         | 80       | 80        | 09         | 09         | 12         | 160   | 07                       | 05              |
| August       | 90       | 82        | 20         | 08         | 10         | 172   | 08                       | 02              |
| Sep          | 112      | 95        | 14         | 05         | 11         | 207   | 08                       | 03              |
| Oct          | 114      | 101       | 19         | 09         | 17         | 215   | 11                       | 06              |
| Nov          | 106      | 120       | 14         | 03         | 22         | 226   | 16                       | 06              |
| Dec          | 117      | 114       | 26         | 21         | 15         | 231   | 11                       | 04              |
| Jan          | 108      | 123       | 11         | 11         | 20         | 231   | 17                       | 03              |
| Feb          | 105      | 114       | 05         | 17         | 5          | 219   | 03                       | 02              |
| Mar          | 104      | 130       | 17         | 02         | 12         | 234   | 10                       | 02              |
| <b>Total</b> |          |           | <b>174</b> | <b>132</b> | <b>156</b> |       | <b>110</b>               | <b>46</b>       |

All the mothers have to undergo the diagnosis and accordingly provided the health services. Apart from the nutrition food the health education on breast-feeding, personal hygiene, institutional deliveries, family planning etc., also been provided as part of the NMHC services

### INDIAN NATIONAL BRAIN BEE 2011-12

**Objective: - To inculcate and encourage the scientific temperament among the students**

Natco organized the Indian National Brain Bee quiz on neurosciences in association with NIMS Hyderabad. Around 20 students from 11 schools took part in the regional quiz competition held at Natco corporate office, Hyderabad. The final was held at Bengalure in association with NIMHANS, in which 13 students from 13 different states took part. The National winner would participate in the International brain bee quiz, which is going to be held in Cape Town.

**Patient Counselor support to government hospitals at Hyderabad**

-2 Counselors in Gandhi Hospital, 4 in MNJ Cancer Hospital and 2 at Niloufer hospital

-Objective: To help poor, illiterate patients get proper access to the available healthcare services.

The Natco trust has positioned 8 counselors in different government hospitals at Hyderabad to support and facilitate the patients coming from different parts of the state and neighboring state. They act as link between the service provider and service seeker. The following table provides information on the services extended by the patient counselors in the hospitals

| S.No. | Name of the particulars                         | Gandhi hospital | Mnj cancer hospital | Niloufer hospital | Total        |
|-------|---|-----------------|---------------------|-------------------|--------------|
| 1     | Outpatient Block Guidance                       | 27145           | 10795               | -                 | 37940        |
| 2     | In patient Block Guidance                       | -               | -                   | 13818             | 13810        |
| 3     | Counseling for Inpatient ward                   | 582             | 218                 | 324               | 1124         |
| 4     | Individual support to patient                   | 124             | 50                  | 41                | 215          |
| 5     | Referrals to blood bank                         | -               | 105                 | 62                | 167          |
| 6     | Referrals to Diagnostic centre                  | -               | -                   | 44                | 44           |
| 7     | Support group meeting                           | -               | 205                 | 218               | 423          |
| 8     | Hospital meeting                                | 05              | -                   | -                 | 5            |
| 9     | Tobacco cessation counseling                    | -               | 12                  | 08                | 20           |
| 10    | Referrals to other hospital                     | 25              | 9                   | 22                | 56           |
| 11    | Follow up cases                                 | 13              | 105                 | 87                | 205          |
| 12    | Art and craft programmes                        | 07              | 55                  | 110               | 172          |
| 13    | Awareness meeting on health issues              | -               | 182                 | 292               | 474          |
| 14    | Networking to other NGOs                        | 31              | 20                  | 24                | 75           |
| 15    | Health awareness programs at government schools | -               | 75                  | 37                | 112          |
|       | <b>Total</b>                                    | <b>27932</b>    | <b>11831</b>        | <b>15087</b>      | <b>54850</b> |

**Education: -**

We are committed to create an enabling environment for children through education initiatives, emphasis laid on access, equity and quality of education by extending the need based support on appropriate infrastructure, skilled teachers, innovative teaching methodology and curriculum, access to basic teaching learning materials for improving the learning competence of the children, in addition to this adapted innovative methods to make learning more interactive and participatory.

Objective: - To strengthen the government schools in terms of infrastructure, libraries, science labs etc. in order to retain all the eligible school going children in the school and impart qualitative education.

**Natco School of Learning, Gollamudipadu village, Ponnur Mandal, Guntur District.**

**Natco Trust** has initiated the setting up of **NATCO SCHOOL OF LEARNING** (an English Medium School), at Gollamudipadu village, Ponnur Mandal of Guntur District during the financial year, 2011-12, with an objective of providing good education to the local community and to many of the surrounding village children.

This School has been set up with well-established infrastructural facilities with gardening and landscaping, well-trained teaching staff, x-seed idiscoveri methodology and activity based learning with an affiliation of CBSE board. It is also facilitated with good transport system and well-equipped library, computer lab and science lab etc.

### Academic activities

- a. X-Seed Curriculum - The curriculum is implemented in order to provide quality education to the students of Natco School of Learning.
- b. Learnometer tests - In order to check students understanding levels Learnometer tests were conducted. The papers were sent by idiscoveri in which Grades 2, 4,5 have performed extremely well and stood on par with the National Average in the progression tests.4 tests were conducted namely baseline test, progression 1,2 and 3.
- c. Examinations - They were conducted in school for three terms.
- d. Projects - In order to induce pupils into Learning by doing various project works were entrusted to them based on reasoning, application, analysis and comprehension.
- e. Field trips - Firsthand experience/Direct experience to students was given through field trips. They were taken to places such as Emu farm, temples, post office, construction site etc.
- f. Teacher training- Teachers were supported through one to one interactions, observations and feedback. Professional development and training programmes by Mr.Hussain and Ms.Rachel were conducted.

### Events:-

Grandparents day:- Grandparents day was celebrated in the school. All the grandparents were given greeting card. Snacks were also given to them.

Independence day:- This day was celebrated with great pomp and show. The Chairman of Natco Pharma Limited had hoisted the National Flag.

Teachers day:- Teachers day was celebrated. Special Assembly was organized in order to entertain teachers.

Sports day and Children s day:- The school is divided into four houses namely Pavlov, Socrates, Newton and Galileo. On the occasion of Children s day, we organized Sports events for children. Various games and sports such as Flat race, slow cycling, skipping, relay, frog race etc were conducted for children.

Annual day:- It was the mega event of the year. All the children were participating. Around 300 parents and other visitors had come to witness this event. The budget allocated was ₹35000/-

Festivals:- Ours being a multi-ethnic society, Diwali, Christmas, New year and Pongal were celebrated in the school

### Natco High School, Rangapur, Kothur Mandal, Mahaboobnagar district

Natco High School was established in the year 1995 under the Natco Trust, to facilitate education in the surrounding villages and also to the employee children of Natco Pharma Ltd. Though the school started with strength of 77 students, 10 rooms and 10 staff members in 1995 by 2011 it has increased to 1324 students, 70 staff and a building of 50 rooms. The service motive of the management has helped many students to pass out with good results. From the initial years the strength of the school was a combination of students from Natco & Non Natco who belonged to the surrounding villages and Thandas. The idea behind establishing school remained to impart education with free and subsidized fees.

Natco high school is a combination of learning and sharing experiences of children and teachers. It gives opportunity to every child to experience a wide range of knowledge practically which helps them to grow. In the same process many workshops, guest lectures, orientation classes are conducted for students, teachers as well as parents. Apart from the regular subjects, sports and art and craft are given top most priority as we incorporate them in the main stream curriculum.

**The academic year 2011 - 12** came to an end with the annual examination in the month of April. The pass percentage of Grade X student was 100% where as the pass percentage of students from LKG to Gr IX was 99%.

The new academic year was taken up with zeal and excitement to reach the motive of providing quality education in school, for which the help of certain aids have been taken up - like.



***X- Seed***

In the third year of implementation of Xseed in school we could witness the outstanding and openness attitude among children. This made them more confident to understand and interpret what they have learnt in the class. Along with developing a good flair towards reading and writing skills they have come across various methods of retaining what they have learnt through the remedial classes which were introduced on a daily basis.

High School students have developed analytical skills and participated in discussion with open mind. Every stage of learning included an experience, with the help of which they could relate to the society or the surroundings they are living in.

- Introduced News paper in education programe which inculcated the habit of reading newspaper every day in school, allowing them to be more exposed and sensitive towards the society.
- Introduced SUPW an a part of Co-curricular activities. Some of the programmes taken up are:
  - Clean the Campus
  - Cook and serve for the old
  - Raise the fund
  - I make my own gift box
- Several reading programmes were taken up to develop reading habits among students.
- Literary Baced competitions were conducted to give oppurtunities for children.
- Session on first aid was conducted to bring awarenes to students.
- In the Science talent test which was conducted on account of world chemistry day three students of NHS topped the mandal level and bagged third place in District level.
- To understand the individual problem of few children, case study format was introduced and teachers have worked individually on them.

**Co - curricular activities:**

Co-curricular Activities helped in the all round devepment of the child. Many co-curricular activities were conducted for the students like,

Thematic quiz compititions based on Computers and Science, Math mela,Thematic Singing,Spell Bee, Clay modeling, Puppetry, Elocion General Knowldge Quiz, Essay Writing,Drawing & Painting, Show & Tell, Make & Talk along with field trips to the topics related as per the class.

**PACM: Parent Academic committee:**

In the academic year 2011 -12, three meetings, one in each term was conducted with the parent academic committee. The parent committee consists of 24 parents of students who belonged from nursery to grade X. In these meetings parents and the teachers along with Principal, Dean and the Vice principal discussed about the academic and general issues related to school. Suggestions were given and taken by the parents and the school body. These parents represented the parent body of the whole school.

**Sports.**

Students of natco school have participated in different games in the district level on behalf of mahaboobnagar district. They have participated in games like hand ball, volley ball and tchok ball.

Amongst the outstanding performances, Divya Mounika of Gr VIII was selected for the Nationals in hand ball, She was felcitated by the collector of Mahaboob nagar district.

Master Rajesh and Anil were also selected for the nationals and played for the state, the sport was conducted in Assam.

### **Capacity building of Teachers:-**

Teacher Training & Work shop Programmes were also conducted to develop skills among the teachers.

- Xseed subject specific workshops
- English classes to develop communication skills.
- Story telling workshops
- School cinema workshops
- Internal Training programmes

### **Infrastructure:-**

- New building of 12 rooms was constructed to meet the demands of the increasing strength. This block consisted of a large library and an activity room where 75 students could use it at once.
- New furniture was procured for LKG & Nursery class along with play material.
- New printing machine was procured which can print 100 copies in a minute.

### **Education activities at Nagarjuna Sagar, Nalagonda district**

#### **AFTER SCHOOL TUTIONS for primary and high school students**

The objective: to inculcate the activity based learning process amongst the students

**Introduction:** It has been observed that dropping out of government schools, is rampant among children in the communities with which the Trust works. In most of the cases, children continue education till 2<sup>nd</sup> standard and drop out due to various reasons. This is because, in the absence of proper tutoring and coaching, children, who are mostly first-generation learners, find it difficult to cope with their syllabus and school environment.

The Natco trust initiated the after school tuitions to the government schools students in the targeted villages where in the emphasis has been put on inculcating activity based learning process in addition to the class room learning. The child has the freedom to explore and learn in joyful way. Accordingly the learning process has been designed. The teaching methodology adopted was Multi grade and multi level.

Tuitions for primary school children in terms of the curriculum and play way teaching techniques are being held at 8 centers presently. The children are provided the learner friendly environment thus making the learning process easy and interesting which is helping in the decrease of dropout children. Emphasis is laid on making the child strong in fundamentals of mathematics and languages.

During this year, we have introduced common level wise curriculum to be implemented in these centers coupled with common methods of assessment too, integrating the concepts being dealt at school for them. The curriculum has also been improvised to provide more scope for enhancement of writing skills, grammar skills and reading skills. assessments are also done through reading cards, and remedial classes are planned.

The Syllabus has been upgraded with the inclusion of various activities pertaining to reading skills, speaking skills, comprehending ability skills apart from the inclusion of exercises related to grammar and vocabulary, at different levels, as per their suitability in Telugu.

In Math also, Mental Math has been introduced apart from dealing with various activities in elaborating the concepts of numbers and rotation and basic operations in Math suitably at each level. Efforts were made to have common assessment system for all the centers through the use of various Reading cards to assess. Also, tried to assess their levels of learning, using the question papers set by external schools (Government schools of other areas, NHS).

In all about 200 students are being catered to, through this program, out of 500 enrollments in different schools of Nagarjuna Sagar. These children are also being provided with supplementary food during the tuition timings.

### **Pre -primary school - Thangalli thanda:-**

The early childhood years are essential for the proper mental, physical, emotional and social development of the child. This lays the foundation for the child's future. Thus, it is very essential to provide children with quality pre-school education. It is with this objective that the Natco Trust has initiated pre primary school

Thangalli thanda is a rehabilitated village, consisting of 87 households belonging to Schedule tribal community. It has been earlier (palthi thanda) situated on the banks of Krishna River and very often inundated by the backwaters of river Krishna. The Trust has started a pre-primary school for the benefit of the children. The centre has 19 students in the age group of 3 to 5 years and they have been imparting activity based play way method learning. The Trust provided all teaching learning materials, play equipments, slates, and books; the center was taken care by a teacher and an ayah.

A nutritious snack is provided daily to the children. In addition, efforts are made to develop the innate abilities of the children through activities like songs, games etc. The concerted efforts with this age group has helped in school-preparedness while also engaging parents in their ward's learning process

During the academic year 2011-12, the school has 19 Children between the age group of 3 to 5 years getting benefit out of this program. They were provided with various learning experiences in Telugu, Math and Themes through different activities designed in thematic manner and with the implementation of Multi Grade Multi Level Methodology in teaching Telugu.

The 4+ and 5+ could learn various concepts pertaining to the topics, My New World, Animals, Insects, My Body, Seasons and Transport in a Thematic manner, consisting of various activities like Circle Time, Outdoor, Rhymes, Stories and Math concepts incorporated in to them. They have also learnt Telugu through MGML methodology, up to 6th -8<sup>th</sup> level. In Math, they could learn Numbers and Notation above 50 and even up to 100. While a few have learnt beyond that, apart from various concepts like: Big-Small, Long-Short, Few-Many, Some-Much, Countable-Uncountable, Light-Heavy, Soft-Rough etc along with Counting, additions and subtractions in single digits. The 6+ have learnt Numbers and Notation up to 300 apart from the above concepts and also Additions and Subtractions in single and double digits without carrying.

**Child Clubs:** This has been motivated in Government schools, defining the purposes, forming groups and initiating activities in language clubs, cultural clubs, art clubs etc.

The child clubs serve as a stimulant for the child to come to school. In order to encourage the participation level and to enhance the interest among the children in extracurricular activities, the children's club at Yerracheru Thanda has been strengthened by way of organizing games and sports, drawing competitions, preparation of Goda patrika. The children's club in Nayakuni Thanda and Thimaiapalem were also strengthened. Various committees like sports committee, motivation committee for the children who did not come to school, cleanliness committee, cultural committee, godapatrika committee, honest box committee have been formed for active participation of children. The children at Natco Government high school has involved in maintaining cleanliness in their respective classes. Art and craft classes were also conducted for the children to tap the hidden potentiality.

Children involve with quite a good excitement in such clubs and they exhibit their leadership skills. This

also instills in them, a sense of Social Responsibility.

### **Education activities at Hyderabad district**

**Support to Natco Government High School:** - The School has more than 1400 students from Class I to X both in Telugu and English medium. The Trust extended the support of housekeeping services and night security along with all required sanitary materials to keep the sanitation and school premises neat and clean. It also provided snacks to the school for all national festivals. A special snack has been provided to the 10<sup>th</sup> class students during the special classes. The results of 10<sup>th</sup> class were 85% both in Telugu and English mediums. 94 students appeared for the 10<sup>th</sup> examinations, out of which 80 students cleared it successfully. The school stood 1<sup>st</sup> in 10<sup>th</sup> results in the district of Hyderabad and the district collector felicitated the entire staff of the school.

The trust also conducted child club and summer camp activities for the primary school students. Around 60 students use to get benefit out of this activity. Uniforms also provided to the students of anganawadi and primary school.



#### **Educational support at Guntur district:-**

**Note books distribution to Government Upper Primary School, Muniapalle village:** - on request of the school authority to support school materials to the students. The Trust has made a visit to the school and assessed the need of the requirement. The Trust distributed note books to 56 students. The program has been attended by the Mandal Education Officer, Mandal Resource Person, HM, parents and community of Muniapalle village.

**Rank Attainment Program:** The deputy DEO of Guntur district has requested the Natco Trust to support in organizing the rank attainment program for the meritorious 10<sup>th</sup> class government high school students. Accordingly the Natco Trust has organized the camp. The Program has been inaugurated by Mr.Lakshmana Rao, MLC along with education department officers.

**Objective:** - the objective of the Rank Attainment program is to refresh the meritorious students of class 10<sup>th</sup> in government high schools in Bapatla division, covering 20 mandals.

**Method of selection:** - From each government high school 2 meritorious students have been selected and they have been put for the residential coaching camp.

**Implementation and methodology:** - Selected teachers would accompany the students during the special coaching program; they stay in the coaching camp on rotation basis. The classes would be from 8 am to 8 pm covering all the subjects and important topics that are expected in the exams. Class rooms, Accommodation and food is provided & arranged by Natco Trust.

Outcome: the camp has good response and total 124 students were participated in the camp. 5 teachers are in the camp all the days to take care of the students and 18 teachers came to take the classes in different subjects. The MEO, Dy.DEO, DEO/RJD visited the premises and camp to interact with the students.

#### **ADVOCACY MEET in Natco School of Learning campus on 25<sup>th</sup> Dec, 2011.**

The advocacy meet was organized on 25<sup>th</sup> Dec 2011 in NSL campus. About 200 individuals, representing various backgrounds were took part in the program under the Chairmanship of Chairman Natco Pharma Limited. The prominent among them were the Member of Parliament, Guntur, MLCs, local MLA and heads of the departments, village elders and village community.

The objective of the program was to disseminate the activities taken up by Natco Trust in the villages surrounding Ponnur mandal of Guntur district and the coordination and cooperation required from the government and public representatives.

The program went on with introducing and visiting the campus covering all class rooms and activity rooms of NSL. Orientation and awareness was given to all the representatives with a power point presentation by the Natco Trust. A live interactive session was organized and came out their opinions and support.

**Livelihoods:** - Skill up gradation for Wage employment, self-employment/value addition income generation for the youth and women

#### **Vocational training centers: -**

During the year 2011-12, the Natco Trust has initiated vocational training centre at Gollamudipadu village of Ponnur Mandal, Guntur district. We have entered partnership with government of Andhra Pradesh for providing training to the youth.

The Trust has started 4 channels of vocational training centre at Hyderabad, Guntur and Nalagonda districts on Fashion designing, Beauty parlor, ICT (information communication technology) Electrical and Driving courses. 451 beneficiaries got trained in different courses. The Trust facilitated placement for 155 beneficiaries. Around 200 beneficiaries are self employed and around 50 beneficiaries were pursuing education and the information on others is not known.

**Social categorization and job placement of the beneficiaries**

| Social categorization courses | ST        | SC        | BC         | Minorities | Others    | Total      |
|-------------------------------|-----------|-----------|------------|------------|-----------|------------|
| Fashion designing             | 22        | 49        | 75         | 26         | 34        | 206        |
| Beauty parlor                 | -         | 13        | 31         | 39         | 07        | 90         |
| ICT                           | 02        | 29        | 41         | 15         | 17        | 104        |
| Electrical                    | -         | 02        | 02         | -          | 03        | 07         |
| Driving                       | -         | 05        | 17         | 16         | 06        | 44         |
| <b>Total</b>                  | <b>24</b> | <b>98</b> | <b>166</b> | <b>96</b>  | <b>67</b> | <b>451</b> |

**Placement to all the beneficiaries**

| Sl.No | Name of the course | No. of candidates positioned | Salary average |
|-------|--------------------|------------------------------|----------------|
| 1     | Beautician         | 24                           | ₹2000 to 8000  |
| 2     | Tailoring          | 43                           | ₹2500 to 5000  |
| 3     | Computers          | 47                           | ₹5500 to 6500  |
| 4     | Electrical         | 03                           | ₹5000 to 7000  |
| 4     | Driving            | 38                           | ₹5000 to 10000 |
| 5     | <b>Total</b>       | <b>155</b>                   |                |

**Social categorization wise placement details**

| Sl. No | ST | SC | BC | Min | Others | Total |
|--------|----|----|----|-----|--------|-------|
| 1      | 04 | 34 | 59 | 45  | 13     | 155   |

**Water and Sanitation**

Objective: - Providing safe drinking water within the reach of the community with permissible limits of minerals with special reference to fluoride

During the year 2011-12 a new RO purified drinking water plant was set up at Gollamudipadu GP of Ponnur mandal in Guntur district.

The Natco Trust has provided RO purified drinking water plants to 4 grama panchayats namely Haliya (4000 LPH), Peddavura (2000 LPH), Peddamunigal (3000 LPH) and at Kambalapally (1000 LPH) in Nalagonda district and Gollamudipadu grama panchayat in Guntur district with a capacity of 5000 LPH. The purified drinking water plant caters 3976 households with a population of 10633. Each family has to pay ₹2 for 20 liters of water. The RO purified drinking water plants are managed by the village community in Nalagonda district and at Guntur; it has been maintained by the Trust.

**Sanitation:** - Individual Sanitation Latrine (ISL) in Gollamudipadu village, Ponnur Mandal, Guntur district

With a vision and target of 100% ISL in the village initiated to stop open defecation to prevent diseases. Discussions have been organized with the community and the line department to orient the importance of ISL and their participation in the construction. During the discussion it has been decided that it would be tripartite. The Trust would facilitate with the government to get the sanctioned amount of ₹3200/-. The Trust would support ₹3500 for each unit, as a back ended. The community has to contribute the rest of money. 124 families responded to this initiative and submitted their willingness to construct through an application. Out of this 32 families constructed the ISL so far and other families are also ready to construct.

## REPORT ON CORPORATE GOVERNANCE

### 1. Company's Policy on Code of Corporate Governance

Your Company is committed to and continues to practice good corporate Governance as per Listing Agreement Clause 49 entered with Stock Exchanges. Company's core principles to lay emphasis on integrity and accountability, incorporate several practices aimed at a high level of business ethics, effective supervision and provide for enhancement of value for all stake holders including but not limited to shareholders, customers, vendors, contractors and all others who are part of the business. Your directors and Senior Management Personnel complied to the code of conduct which in place.

### 2. Board of Directors - Composition

#### (i) Composition of the Board

As on 31st March, 2012, the Company has nine Directors on its Board, of which four are working Directors and five are Non-working Directors all of whom them being independent and professional Directors. Every year one third of the Directors (except Nominee Director) retire by rotation. Brief resume of Directors seeking appointment/ reappointment is given in the Notice of the Annual General Meeting.

#### (ii) Number of Board Meetings

The Board of Directors and its committees meet at regular intervals. The Board meetings are tentatively fixed at the beginning of each financial year. During the year under review, 4 meetings of the Board were held on 30-05-2011, 12-08-2011, 9-11-2011 & 9-2-2012. Board and Audit Committee meetings were convened on the same day in order to avoid possible travel and time constraints of the Directors. As stipulated in the Companies Act and also as per the Listing Agreement the intervening period between two board meetings was not more than 4 months.

#### (iii) Directors' attendance record and Directorships held

The names and categories of the Directors on the Board, their attendance at Board meetings during the year under review and at the last Annual General Meeting, as also the number of Directorships and Committee memberships held by them in other companies are given below:

| Name of The Director        | Category                                 | No of Board Meeting During The Year |          | Whether Attended Last AGM Held on 30-09-2011 | No. of Directorships in Other Public Limited Companies* | No of Committees |          | Relationship interse Directors   |
|-----------------------------|--|-------------------------------------|----------|--|---|------------------|----------|----------------------------------|
|                             |  | Held                                | Attended |  |   | Member           | Chairman |                                  |
| Mr. V.C. Nannapaneni        | Promoter                                 | 4                                   | 4        | Yes  | 2   | 4                | 1        | Father of Mr. Rajeev Nannapaneni |
| Mr. C.P. Ravindranath       | Independent Director - Nominee Exim Bank | 4                                   | 3        | No   | 2   | -                | -        | -                                |
| Mr. G.S. Murthy             | Independent                              | 4                                   | 4        | Yes  | -   | -                | 4        | -                                |
| Dr. B.S. Bajaj              | Independent                              | 4                                   | 4        | Yes  | -   | 3                | -        | -                                |
| Dr. Jasti Samba Siva Rao    | Independent                              | 4                                   | 3        | No   | -   | -                | -        | -                                |
| Mr. Rajeev Nannapaneni      | Whole time Director                      | 4                                   | 4        | Yes  | 2   | 1                | -        | Son of Sri V.C. Nannapaneni      |
| Dr. P. Bhaskara Narayana    | Whole time Director                      | 4                                   | 4        | Yes  | 1   | 2                | -        | -                                |
| Dr. A.K.S. Bhujanaga Rao    | Whole time Director                      | 4                                   | 3        | Yes  | -   | -                | -        | -                                |
| Mr. Nitin Jagannath Deshmuk | Additional Director w.e.f. 09-02-2012    | 4                                   | 1        | -  | 2   | 1                | -        | -                                |

\* excluding Private Ltd Companies and Companies not carrying on business for profit or which prohibits the payment of dividend.

None of the Directors on the Board are members of more than ten committees or Chairman of more than five committees across all the companies in which they are Directors as required under Clause 49. All the necessary disclosures regarding Committee positions have been made by the Directors.

The Board periodically reviews compliance reports of all statutory laws applicable to the Company. Steps are taken by the Company to rectify instances of non-compliance, if any.

During 2011-12, the Company did not have any material pecuniary relationship or transactions with Non working Directors.

**(iv) Board Agenda**

Board Agenda containing the required information and details for the items of business for the meeting being circulated to all the Directors in advance. After circulation of the Agenda if any issue(s) requires Board's immediate attention are being tabled with the permission of the Chairman at the meeting.

**3. Audit Committee**

Your Company has got an Audit Committee of Board of Directors which was constituted in line with the provisions of the Companies Act, 1956 as also the Clause 49 of the Listing Agreement with the Stock Exchanges. The Chairman of Audit Committee is an independent professional Director and the Committee consists of four Directors out of which three are independent Directors. Statutory Auditors, Internal Auditors and Cost Auditors are also present in the meetings as special invitees. The Company Secretary acts as the Secretary of the Audit Committee. The Audit Committee meets before the Board takes up the consideration of unaudited/audited results and there will not be more than 4 months time gap between any two meetings and minimum of 4 meetings are being held in each financial year.

The Audit Committee constitutes Shri G.S.Murthy, Shri C.P.Ravindranath, Dr.B.S.Bajaj and Shri V.C. Nannapaneni as its members. During the year, the Audit Committee met 4 times on 30-05-2011, 12-08-2011, 9-11-2011 & 9-2-2012.

The members who attended the number of meetings are as follows:

| Name of the Member    | Meetings held during the year | Attendance at the meeting |
|-----------------------|-------------------------------|---------------------------|
| Shri G.S.Murthy       | 4                             | 4                         |
| Dr. B. S. Bajaj       | 4                             | 4                         |
| Mr. C.P. Ravindranath | 4                             | 3                         |
| Shri V.C.Nannapaneni  | 4                             | 4                         |

The broader Terms of reference of Audit Committee are as follows:

- a) Oversee of the Company's financial reporting process and the disclosure of its financial information to ensure that the financial statements are correct, sufficient and credible.
- b) Recommending to the Board, the appointment, re-appointment and, if required, the replacement or removal of the statutory auditors and fixation of audit fees. Approval of payment to statutory auditors for any other services rendered by the statutory auditors.
- c) Reviewing with management the annual financial statements before submission to the Board, focusing primarily on Board's report in terms of Clause (2AA) of Section 217 of the Companies Act, 1956;
- d) Reviewing with management, performance of statutory and internal auditors, adequacy of the internal control systems.

- e) Reviewing the adequacy of internal audit function, including structure of the internal audit department, staffing and seniority of the official heading the department, reporting structure, coverage and frequency of internal audit.
- f) Discussion with internal auditors any significant findings and follow up thereon.
- g) Reviewing the findings of any internal investigations by the internal auditors into matters where there is suspected fraud or irregularity or a failure of internal control systems of a material nature and reporting the matter to the Board.
- h) Discussion with statutory auditors before the audit commences, nature and scope of audit as well as have post audit discussion to ascertain any area of concern.
- i) To look into the reasons for substantial defaults in payment to the depositors, debenture holders, shareholders (in case of non payment of declared dividends) and creditors.
- j) Reviewing with management, the quarterly financial statements before submission to the Board for approval.
- k) To review the functioning of the Whistle Blower mechanism.
- l) Carrying out any other function as is mentioned in the terms of reference of the Audit Committee.

#### 4. Remuneration Committee

##### i. Terms of reference

Your company has also constituted a remuneration committee of Directors to appraise the performance of managing/whole time directors/senior management personnel, determine and recommend to the Board, the remuneration payable to them, the details of which are included elsewhere in this report.

##### ii. Composition, names of members and attendance during the year

As of 31st March, 2012, two member Remuneration Committee comprised of Non-working independent professional Directors viz. (1) Shri G.S.Murthy and (2) Dr. B.S. Bajaj and they met on 12-8-2011.

##### iii. Remuneration of Directors

Remuneration paid to Directors during 2011-2012

##### a. Functional Directors:

| S. No. | Name                     | Position                        | Total ₹     |
|--------|--------------------------|---------------------------------|-------------|
| 1.     | Sri V.C. Nannapaneni     | Chairman & MD                   | 1,06,08,000 |
| 2.     | Mr. Rajeev Nannapaneni   | Director & COO                  | 84,00,000   |
| 3.     | Dr. P. Bhaskara Narayana | Director & CFO                  | 32,00,000   |
| 4.     | Dr. A.K.S. Bhujanaga Rao | President (R & D and Technical) | 31,19,599   |



**b. Non-Functional Directors**

A sitting fee of ₹5,000/- (Rupees Five Thousands only) is paid for attending the each Board/Committee meeting in addition to reimbursement of out of pocket expenses. The amount paid is well within the ceiling limits under the Companies Act and the Articles of Association of the Company. The details of the sitting fees paid to the Non working Directors during the year 2011-12 is given below:

| Sl. No. | Name                  | Position                     | Sitting Fees paid for the meetings of |                 |                              |                        |                        |                     | TOTAL  |
|---------|-----------------------|------------------------------|---------------------------------------|-----------------|------------------------------|------------------------|------------------------|---------------------|--------|
|         |                       |                              | Board meeting                         | Audit Committee | Investor Grievance Committee | Remuneration Committee | Compensation Committee | Allotment Committee |        |
|         |                       |                              | ₹                                     | ₹               | ₹                            | ₹                      | ₹                      | ₹                   |        |
| 1.      | Sri G.S.Murthy        | Independent Director         | 20,000                                | 20,000          | 10,000                       | 5,000                  | 5,000                  | 20,000              | 80,000 |
| 2.      | Mr. C.P. Ravindranath | Nominee Director - Exim Bank | 15,000                                | 15,000          | -                            | -                      | -                      | -                   | 30,000 |
| 3.      | Dr. B.S.Bajaj         | Independent Director         | 20,000                                | 20,000          | -                            | 5,000                  | 5,000                  | -                   | 50,000 |
| 4.      | Dr. J. S. Rao         | Independent Director         | 15,000                                | -               | -                            | -                      | -                      | -                   | 15,000 |
| 5.      | Mr. Nitin Deshmukh    | Independent Director         | 5,000                                 | -               | -                            | -                      | -                      | -                   | 5,000  |

**5. Investors Grievances Committee**

The Company has constituted Investor grievance committee of Directors to redress the complaints of shareholders such as transfer or credit of shares, non-receipt of dividend/ notices/ annual reports, etc. The committee consists of three Directors of which Chairman of the Committee is Independent Professional Director. The members are Mr.G.S.Murthy, Dr.P.Bhaskara Narayana and Mr.V.C.Nannapaneni and they met on 12-08-2011 & 9-02-2012.

The Company had received 145 requests for various queries during the year 2011-12 and all of them were replied / resolved to the satisfaction of the investors.

**6. Compensation Committee:**

Your Company has also got a Compensation Committee (Though not mandatory) comprising of Shri V.C. Nannapaneni, Shri G.S.Murthy and Dr. B.S. Bajaj which reviews and grants share options to the eligible employees of the Company.

The Committee met on 12-08-2011.

**7. Allotment Committee**

Your Company has also got an Allotment Committee comprising of Shri V.C. Nannapaneni, Shri G.S. Murthy, Mr. Rajeev Nannapaneni and Dr. P. Bhaskara Narayana which periodically meets as need basis, reviews and allots shares to various persons / Companies such as employees, Qualified Institutional Buyers, Foreign Currency Bond holders etc.

The Committee met on 28-11-2011, 6-12-2011, 7-12-2011 and 13-12-2011 for the purpose of and in connection with Company's placement to Qualified Institutional Buyers.

**8. Share Transfer Committee**

The transfers of equity shares of the Company are approved by the Share Transfer Committee the power of which has been delegated to the Share Transfer Agents/Registrars of the Company. The Company Secretary approves share transfers/transmissions and related matters.

Shares lodged for transfer either at Company's Registered Office or at the Company's Registrars are normally processed within 15 days from the date of lodgment, if the documents are valid in all respects. All requests for dematerialization of shares are processed and the confirmation(s) is given to the depositories within 15 days.

During the Financial year 535 instruments of transfers/ transmissions for 43,240 equity shares were received and the same were effected.

## 9. General Body Meetings

- a. The following were the details of the location and time of the last three Annual General Meetings (AGMs) of the Company:

| Year      | Date of the Meeting | Venue   | Time of meeting | No. of Special Business |
|-----------|---------------------|---|-----------------|-------------------------|
| 2008-2009 | 29-09-2009          | Jubilee Hills International Center, Road No.14, Jubilee Hills, Hyderabad - 500 033. | 10.00 a.m.      | 4                       |
| 2009-2010 | 30-09-2010          | Jubilee Hills International Center, Road No.14, Jubilee Hills, Hyderabad - 500 033. | 10.00 a.m.      | 4                       |
| 2010-2011 | 30-09-2011          | Daspalla Hotel, Road No.37 Jubilee Hills, Hyderabad 500 033                         | 10.30 a.m.      | 2                       |

All the resolutions were passed by show of hands. The Company has not passed any resolution through postal ballot during the year under reference.

## 10. Minutes

Minutes of the Board meetings, Committee meetings and the General Body meetings are prepared, recorded and approved by the Chairman of the meetings as per the statutory norms.

## 11. Quarterly Reconciliation of Share Capital Audit Report and other Reports

A Share Capital Audit on the compliance of Corporate Laws and SEBI regulations was done and certified by a Practicing Company Secretary for all the four quarters of the year under review and submitted to the stock exchanges in the prescribed format as per Listing agreement.

## 12. Secretarial Standards

The Institute of Company Secretaries of India has issued Secretarial Standards on Board, General Meetings, Dividend and Registers and Records that are presently recommendatory. The company's practices and procedures meet with these guidelines.

## 13. Disclosures

### a. Legal Compliances

The Company follows a formal management policy and system of legal compliance and reporting to facilitate periodical review by the Board of the compliance of laws applicable to the Company and steps taken to rectify non-compliances, if any. There were no instances of material non-compliance and no strictures or penalties were imposed on the Company either by SEBI, Stock Exchanges or any statutory authorities on any matter related to capital markets, tax/excise matters etc. during the last three years.

### b. Code of Business Conduct

The Code of Business Conduct adopted by the Company has been posted on the web site of the Company. The members of the Board and senior management of the Company have submitted their affirmation on compliance with the Code of Business Conduct. The declaration by the Chairman & Managing Director to that effect forms part of this report.

**c. Related Party Transactions**

Transactions with related parties are disclosed in detail in the financial statements for the year. Adequate care was taken to ensure that the potential conflict of interest did not harm the interests of the Company at large.

**d. Mandatory & Non-Mandatory Clauses**

The Company has complied with all mandatory requirements laid down by the Clause 49 of the Listing Agreement. The non-mandatory requirements complied with have been disclosed at the relevant places.

**e. Environmental Policy**

The Company strives to continually improve our environmental performance and prevention of pollution by compliance with applicable environmental legislations and regulations and other applicable requirements, by incorporating suitable techniques such as waste management, recovery of raw materials, isolating bye-products and distillations of solvents to control pollutions, by conserving raw materials, natural resources such as water, diesel, coal & electricity by creating an environmental awareness among employees & suppliers and by providing a frame work for setting and reviewing of environmental objectives and targets. The Company's environmental policy is made available to public and concerned governmental authorities. Your Company claims it as Zero Effluent Discharge Company which has been confirmed by AP Pollution Control Board.

**14. Compliance with other Mandatory requirements**

i) Management Discussion and Analysis

Management Discussion and Analysis Statement along with management of Risks at Natco is attached to the Directors' Report forming part of the Annual Report of the Company.

ii) Senior Management Declaration:

Senior Management Personnel have declared to the Board that, no material, financial and commercial transactions were entered into by them during 2011-12 where they have personal interest that may have a potential conflict with the interest of the Company at large.

iii) Subsidiary Companies

The Company has a fully owned subsidiary named (1) NATCO Pharma Inc. in USA. (2) Time Cap overseas and a stepdown subsidiary Natco Pharma Do Brasil, Brazil.

iv) Disclosure of Issue Proceeds

The Company did not make any Public, Rights or Preferential Issue of securities during 2011-12 except as mentioned in the Directors' Report.

v) CFO Certification

CFO Certification by Dr. P. Bhaskara Narayana, Director & CFO as per the Listing Agreement was placed before the Board at its meeting on 11th August, 2012.

vi) Review of Directors' Responsibility Statement

The Board in its Report have confirmed that the annual accounts for the year ended 31st March, 2012 have been prepared as per applicable accounting standards and policies and that sufficient care has been taken for maintaining adequate accounting records.

**15. Compliance with non-mandatory requirements**

i. Board: The Chairman is executive but does not maintain an office at the Company's expenses.

ii. Remuneration Committee: Remuneration Committee has been constituted vide details furnished supra.

iii. Mechanism for evaluating non-working Board Members:

The Company has got a suitable process for assessing the effectiveness of the Board members and the Committee members.

iv. Whistle Blower Policy:

The Company promotes ethical behavior in all its business activities and has put in place mechanism of reporting illegal or unethical behavior. Employees are free to report violations of laws, rules, regulations or unethical conduct to their immediate superior. The Directors and Senior Management are obliged to maintain confidentiality of such reporting and ensure that the whistle blowers are not subjected to any discriminatory practices.

- v. Shareholders' Rights: As per the Listing Agreement Quarterly/yearly Audited/un-audited Results on the company's financial performance with press note(s), if any, were sent to stock exchanges and published in newspapers. Such press notes, Results are also posted on the Company's Website.
- vi. SEBI by Circular dt.26/04/07 has directed Stock Exchanges to amend clause 32 of Listing Agreement. This is to facilitate circulation of Abridged Accounts in lieu of full-fledged Annual Report. The Company has however not exercised this option and continues to send Annual Report in full form to all shareholders.
- vii. Audit Qualification: The Company replied suitably for the qualifications of Auditors which were mentioned elsewhere in this report.
- viii. Others: All the Directors are well versed in the business model of the Company. Detailed presentations are made by Senior Executives and Professionals followed by full-length discussions at Audit Committee/ Board Meetings. Considering the same, no formal training of Board members or peer review of the performance of non-executive Directors is arranged.

The Company has an informal work atmosphere where employees have direct access to top management including the Chairman and other Directors. Hence institution of a formal Whistle Blower Policy is not considered warranted.

## 16. Means of Communication

During the year, audited / unaudited quarterly, half-yearly and annual financial results on the standalone basis and on the consolidated basis of the Company were submitted to the stock exchanges soon after the Board meeting approved these and were accordingly published in the newspapers as per norms. These were also promptly put on the Company's website [www.natcopharma.co.in](http://www.natcopharma.co.in). All official news release of relevance to the investors are also made available on the website. Quarterly Unaudited / audited Financial Results of the Company, Press Releases on significant developments in the Company such as product launches, new units / important events, approvals etc. were made available from time to time to the Stock Exchanges where your Company's shares are listed and also to the press and posted on the website of the company.

The Company did not send the half-yearly reports to each household of shareholders in the financial year 2011-12. However the Company displays its quarterly, half yearly and yearly results on its website [www.natcopharma.co.in](http://www.natcopharma.co.in). The quarterly financial results of the Company are also published in a National English Daily and in a Regional Vernacular (Telugu) daily and the details of publications are as under:

| Quarter Ended        | Name of the English Daily               | Name of the Regional Daily         | Date of Publication |
|----------------------|---|------------------------------------|---------------------|
| 30th June, 2011      | Business Standard                       | Namaste Telangana, Eenadu          | 13-08-2011          |
| 30th September, 2011 | Business Standard                       | Prajasakti, Vaartha                | 10-11-2011          |
| 31st December, 2011  | Financial Express, Business Line        | Prajasakti, Eenadu                 | 10-02-2012          |
| 31st March, 2012     | Business Standard, Times of India, Mint | Namaste Telangana, Vaartha, Eenadu | 30-05-2012          |

The Company also releases all price sensitive information simultaneously to NSE, BSE and also to the Press and Electronic Media.

**17. General Information for Shareholders**

**AGM: Date, Time and Venue**

|                                       |  |
|---------------------------------------|--|
| Annual General Meeting<br>Date & Time | 29th September, 2012 at 10.30 a.m.                               |
| Venue                                 | Daspalla Hotel, Road No.37,<br>Jubilee Hills, Hyderabad- 500 033 |
| Book Closure dates                    | 26-9-2012 to 29-9-2012<br>(Both days inclusive)                  |

**18. Financial calendar 2011-2012**

The Company follows April - March as its financial year. The Unaudited/Audited Financial results for every quarter beginning from April will be declared as per the Listing Agreement.

**19. Financial Reporting - Unaudited Results - Tentative Dates:**

|                                      |                                   |
|--------------------------------------|-----------------------------------|
| For the quarter ending June 30, 2012 | 11/08/2012                        |
| For the quarter ending Sep 30, 2012  | On or before 15/11/2012           |
| For the quarter ending Dec 31, 2012  | On or before 15/02/2013           |
| For the quarter ending Mar 31, 2013  | On or before 30/05/2013           |
| Annual General meeting for 2012-13   | On or before 30th September, 2013 |

**20. Listing of Equity Shares**

The Company's shares are listed in the following Stock Exchanges.

| Name of The Stock Exchange                     | Stock Code |
|--|------------|
| Bombay Stock Exchange Limited (BSE)            | 524816     |
| National Stock Exchange of India Limited (NSE) | NATCOPHARM |

**21. Listing fees to the Stock Exchanges**

The Company has paid the annual listing fees for the year 2011-12 to both of the above stock exchanges.

**22. Custodial fees to the Depositories:**

The Company has paid Custodial Fee for the year 2011 - 2012 to both National Securities Depository Limited and the Central Depository Services (India) Limited.

### 23. Market Price Data

The monthly movement of equity share prices during the financial year 2011- 2012 at BSE & NSE are summarized as herein below:

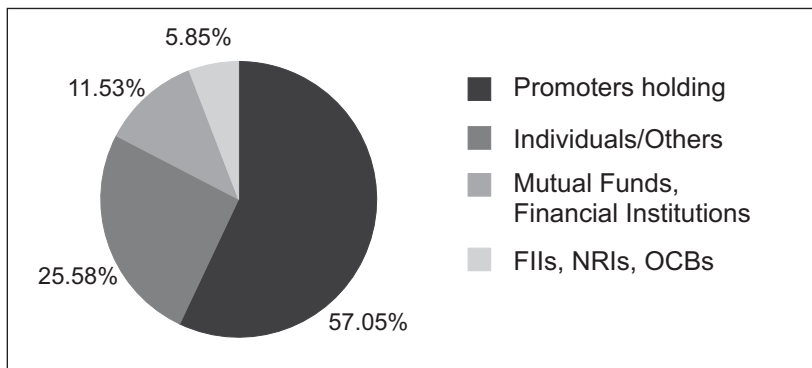
| Month & Year    | Bombay Stock Exchange |        | National Stock Exchange |        |
|-----------------|-----------------------|--------|-------------------------|--------|
|                 | ₹ High                | ₹ Low  | ₹ High                  | ₹ Low  |
| April, 2011     | 295.65                | 260.15 | 295.50                  | 265.55 |
| May, 2011       | 293.00                | 271.05 | 291.80                  | 274.55 |
| June, 2011      | 289.20                | 264.95 | 297.10                  | 255.00 |
| July, 2011      | 291.00                | 261.00 | 286.00                  | 252.30 |
| August, 2011    | 283.00                | 242.15 | 282.40                  | 242.00 |
| September, 2011 | 262.95                | 226.00 | 257.55                  | 220.15 |
| October, 2011   | 255.00                | 219.00 | 254.80                  | 212.10 |
| November, 2011  | 253.00                | 197.25 | 254.00                  | 194.95 |
| December, 2011  | 284.90                | 209.00 | 283.00                  | 212.80 |
| January, 2012   | 293.00                | 230.20 | 291.00                  | 231.50 |
| February, 2012  | 287.80                | 252.00 | 287.00                  | 270.20 |
| March, 2012     | 361.45                | 263.15 | 361.80                  | 260.10 |

### 24. Share Transfer Work For Both Physical & Electronic Forms

M/s. Venture Capital and Corporate Investments Ltd.  
 12-10-167, BHARAT NAGAR  
 HYDERABAD 500 018.  
 Tel No:040-23818475 & 23818476  
 Fax No:040-23868024  
 E-mail: info@vccilindia.com.

### 25. Shareholding Pattern

Distribution of Shareholding as on 31st March, 2012



### 26. Dematerialization of shares

Nearly 98% of your Company shares were dematerialized as on 31st March 2012. As the trading is being conducted only in electronic form members are requested to go in for dematerialisation of shares at the earliest.

**27. Shareholding details as on 31st March 2012**

Your Company has a Shareholder base of 29,481 members as on 31.03.2012 and the paid up capital is ₹31,14,79,520/-.

**28. Investor Grievances**

The Company has an exclusive email id viz. investors@natcopharma.co.in to register shareholder complaints, if any. The Company strives to reply to the complaints within a period of 3 working days.

**29. Report on corporate governance**

This Report read together with the information given in Directors' Report which includes Management Discussion & Analysis along with Management of Risks at Natco and Shareholder Information, Corporate Social Responsibility constitute the compliance report on Corporate Governance during the year under review.

**30. Insider trading guidelines**

Comprehensive guidelines are in place in accordance with the SEBI Regulations in this regard, advising and cautioning the management, staff, their relatives and other relevant business associates on the procedure to be followed while dealing with the securities of your Company. The code of conduct and corporate disclosure practices framed by the company ensures compliance with the requirements.

**31. Compliance Certificate from the Practicing Company Secretary**

Certificate from the Practicing Company Secretary confirming the compliance with the conditions of the Corporate Governance as stipulated under Clause 49 of the Listing Agreement, is annexed herewith and forms part of the Annual Report.

**32. Plant Locations**

|  |  |
|--|--|
| <p><b>Pharma Division</b><br/>Kothur Post &amp; Mandal<br/>Mahaboobnagar Dist.<br/>Andhra Pradesh -509 228.</p>  | <p><b>Pharma Division - Parenterals</b><br/>Vijayapuri North,<br/>Nagarjunasagar, Nalgonda Dist.<br/>Andhra Pradesh - 508 202.</p> |
| <p><b>Chemical Division</b><br/>Mekaguda, Kothur Mandal<br/>Mahaboobnagar Dist.<br/>Andhra Pradesh - 509 228.</p>  | <p><b>R &amp; D Division</b><br/>B-13, Industrial Estate<br/>Sanathnagar, Hyderabad.<br/>Andhra Pradesh - 500 018.</p>             |
| <p><b>Formulations Division</b><br/>Plot No.19, Pharma City,<br/>Selaqui Industrial Area,<br/>Vikas Nagar,<br/>DEHARADUN - 248 001.<br/>Uttarakhand.</p> | <p><b>Formulations Division</b><br/>Plot No.A3, UPSIDC,<br/>Selaqui Industrial Area,<br/>DEHARADUN - 248 001.<br/>Uttarakhand.</p> |

**Regd. Office :**

**Natco House**

Road No.2, Banjara Hills,  
Hyderabad - 500 033.

Tel No. (040) 23547532 Fax No. 23548243

Email : investors@natcopharma.co.in



## ANNEXURE 1 TO CORPORATE GOVERNANCE REPORT

To  
The Shareholders,

### Affirmation of Compliance with Code of Business Conduct

I, V.C. Nannapaneni, Chairman & Managing Director, declare that the Board of Directors of the Company has received affirmation on compliance with the Code of Business Conduct for the period from 1st April, 2011 or the date of their joining the Company, whichever is later, to 31st March, 2012 from all Board Members and also Senior Management staff immediately one level below the board members viz. all functional business heads, heads of finance, HR, legal, EDP Dept. etc.

Hyderabad  
11<sup>th</sup> August, 2012

**V. C. NANNAPANENI**  
Chairman & Managing Director

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## ANNEXURE 2 CFO CERTIFICATION TO THE BOARD

(Under Clause 49(V) of Listing Agreement)

### I Certify that --

- a. I have reviewed the financial statements and the cash flow statement for the year ended 31st March 2012 and that to the best of my knowledge and belief:
  - These statements do not contain any materially untrue statement or omit any material fact or contain statements that might be misleading;
  - These statements together present a true and fair view of the Company's affairs and are in compliance with existing accounting standards, applicable laws and regulations;
- b. There are, to the best of my knowledge and belief, no transactions entered into by the Company during the year ended 31st March, 2012 that are fraudulent, illegal or violative of the Company's code of conduct;
- c. I accept responsibility for establishing and maintaining internal controls and that I have evaluated the effectiveness of the internal control systems of the Company and I have disclosed to the auditors and the Audit Committee, deficiencies in the design or operation of the internal control, if any, of which I am aware of and the steps I have taken or propose to take to rectify these deficiencies.
- d.
  - i) There has not been any significant change in internal control over financial reporting during the year under reference;
  - ii) There has not been any significant change in accounting policies during the year except as laid down in Accounting Standard (AS) 15 (revised 2005) on Employee Benefits, requiring disclosure in the notes to the financial statements;
  - iii) I am not aware of any instance during the year of significant fraud with involvement therein of the management or any employee having a significant role in the Company's internal control system over financial reporting.

Date : 11<sup>th</sup> August, 2012  
Place : Hyderabad

Sd/-  
**(Dr. P. BHASKARA NARAYANA)**  
DIRECTOR & CFO



**Certificate on compliance of conditions of Corporate Governance as per clause 49 of the Listing Agreement with the Stock Exchanges.**

To  
The Members of Natco Pharma Limited

I have examined the compliance of conditions of Corporate Governance by Natco Pharma Limited, for the year ended on March 31, 2012 as stipulated in Clause 49 of the Listing Agreement of the said Company with Stock Exchanges.

The compliance of conditions of Corporate Governance is the responsibility of the management. My examination has been limited to a review of the procedures and implementation thereof adopted by the Company for ensuring compliance with the conditions of the certificate of Corporate Governance as stipulated in the said clause. It is neither an audit nor an expression of opinion on the financial statements of the Company.

No investor grievance(s) are pending for a period exceeding one month against the Company as per the records maintained by the Company.

In my opinion and to the best of my information and according to the explanations given to me and the representations made by the Directors and the management, I certify that the Company has complied with the conditions of Corporate Governance as stipulated in Clause 49 of the above-mentioned Listing Agreement. The Company has submitted and published the Financial Results for all the quarters with the stipulated time.

I further state that such compliance is neither an assurance as to the future viability of the Company nor of the efficiency or effectiveness with which the management has conducted the affairs of the Company.

Place : Hyderabad  
Date : 11<sup>th</sup> August, 2012

**P. Renuka**  
Company Secretary in Practice  
C.P.No.3460



## AUDITORS REPORT

To

The Members of NATCO Pharma Limited

1. We have audited the attached Balance Sheet of NATCO Pharma Limited ('the Company'), as at 31 March 2012, and also the Statement of Profit and Loss and the Cash Flow Statement for the year ended on that date annexed thereto (collectively referred as the 'financial statements'). These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.
2. We conducted our audit in accordance with the auditing standards generally accepted in India. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.
3. As required by the Companies (Auditor's Report) Order, 2003 ('the Order') (as amended) issued by the Central Government of India in terms of sub-section (4A) of Section 227 of the Companies Act, 1956 ('the Act'), we enclose in the Annexure a statement on the matters specified in paragraph 4 and 5 of the Order.
4. *As discussed in note 2 to the accompanying financial statements, we report that the Company has not recognized Minimum Alternative Tax (MAT) credit entitlement in accordance with the Guidance Note on Accounting for Credit Available in Respect of Minimum Alternative Tax under the Income-tax Act, 1961. Consequently, the Profit for the year ended 31 March 2012 is understated by ₹112,767,579 (2011: ₹131,527,145) and the balance in loans and advances and reserves and surplus as at 31 March 2012 is understated by ₹404,902,653 (2011: ₹292,135,074). This had caused us to qualify our audit opinion on the financial statements for the year ended and as at 31 March 2011.*
5. Further to our comments in the Annexure referred to above, we report that:
  - (a) We have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purposes of our audit;
  - (b) In our opinion, proper books of account as required by law have been kept by the Company so far as appears from our examination of those books;
  - (c) The financial statements dealt with by this report are in agreement with the books of account;
  - (d) On the basis of written representations received from the directors, as on 31 March 2012 and taken on record by the Board of Directors, none of the directors is disqualified as on 31 March 2012 from being appointed as a director in terms of clause (g) of sub-section (1) of Section 274 of the Act;
  - (e) In our opinion and to the best of our information and according to the explanations given to us, *except for the effect of adjustment for the matters discussed in paragraph 4 above*, the financial statements dealt with by this report comply with the accounting standards referred to in sub-section (3C) of Section 211 of the Act and give the information required by the Act, in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India, in the case of:
    - (i) the Balance Sheet, of the state of affairs of the Company as at 31 March 2012;
    - (ii) the Statement of Profit and Loss, of the profit for the year ended on that date; and
    - (iii) the Cash Flow Statement, of the cash flows for the year ended on that date.

For **Walker, Chandio & Co**  
Chartered Accountants  
Firm Registration No: 001076N

per **Sanjay Kumar**  
Partner

Membership No. 207660

Place : Hyderabad  
Date : 28 May 2012

**Annexure to the Auditors' Report of even date to the members of NATCO Pharma Limited, on the financial statements as at and for the year ended 31 March 2012**

Based on the audit procedures performed for the purpose of reporting a true and fair view on the financial statements of the Company and taking into consideration the information and explanations given to us and the books of account and other records examined by us in the normal course of audit, we report that:

- (i) (a) The Company has maintained proper records showing full particulars, including quantitative details and situation of fixed assets, *except in certain instances where the records for plant and machinery, furniture and other assets are maintained for a group of similar assets and not for each individual assets.*
- (b) The Company has a regular program of physical verification of its fixed assets under which fixed assets are verified in a phased manner over a period of 3 years which, in our opinion, is reasonable having regard to the size of the Company and the nature of its assets. No material discrepancies were noticed on such verification.
- (c) In our opinion, a substantial part of fixed assets has not been disposed off during the year.
- (ii) (a) The management has conducted physical verification of inventory at reasonable intervals during the year.
- (b) The procedures of physical verification of inventory followed by the management are reasonable and adequate in relation to the size of the Company and the nature of its business.
- (c) The Company is maintaining proper records of inventory and no material discrepancies were noticed on physical verification.
- (iii) (a) The Company has granted an unsecured loan to one party covered in the register maintained under Section 301 of the Act. The maximum amount outstanding during the year was ₹7,066,105 and the year-end balance is ₹Nil.
- (b) In our opinion, the rate of interest and other terms and conditions of such loans are not, *prima facie*, prejudicial to the interest of the Company.
- (c) In respect of loans granted, receipt of the principal amount and interest is regular.
- (d) There is no overdue amount in respect of loans granted to such companies, firms or other parties.
- (e) The Company has not taken any loans, secured or unsecured from companies, firms or other parties covered in the register maintained under Section 301 of the Act. Accordingly, the provisions of clauses 4(iii)(f) and 4(iii)(g) of the Order are not applicable.
- (iv) In our opinion, there is an adequate internal control system commensurate with the size of the Company and the nature of its business for the purchase of inventory and for the sale of goods and services. *In our opinion, the internal control system for purchases of fixed assets including capital work-in-progress needs to be strengthened to be commensurate with the size of the Company and the nature of its business. In our opinion, there is a continuing failure to correct a major weakness in the internal controls for purchase of fixed assets and capital work-in-progress.*
- (v) (a) In our opinion, the particulars of all contracts or arrangements that need to be entered into the register maintained under Section 301 of the Act have been so entered.
- (b) Owing to the unique and specialized nature of the items involved and in the absence of any comparable prices, we are unable to comment as to whether the transactions made in pursuance of such contracts or arrangements have been made at prevailing market prices at the relevant time.
- (vi) The Company has not accepted any deposits from the public within the meaning of Sections 58A and 58AA of the Act and the Companies (Acceptance of Deposits) Rules, 1975. Accordingly, the provisions of clause 4(vi) of the Order are not applicable.

- (vii) The Company has an internal audit system, *the scope and coverage of which, in our opinion, requires to be further enhanced to be commensurate with its size and the nature of its business.*
- (viii) We have broadly reviewed the books of account maintained by the Company pursuant to the Rules made by the Central Government for the maintenance of cost records under clause (d) of sub-section (1) of Section 209 of the Act in respect of Company's products and are of the opinion that, *prima facie*, the prescribed accounts and records have been made and maintained. However, we have not made a detailed examination of the cost records with a view to determine whether they are accurate or complete.
- (ix) (a) Undisputed statutory dues including provident fund, investor education and protection fund, employees' state insurance, income-tax, sales-tax, wealth-tax, service-tax, custom duty, excise duty, cess and other material statutory dues, as applicable, have generally been regularly deposited with the appropriate authorities, though there has been a slight delay in a some cases in respect of value added tax and works contract tax. Further, no undisputed amounts payable in respect thereof were outstanding at the year-end for a period of more than six months from the date they become payable.
- (b) The dues outstanding in respect of sales-tax, income-tax, custom duty, wealth-tax, excise duty, cess on account of any dispute, are as follows:

| Name of the statute       | Nature of dues    | Amount (₹) | Amount deposited under protest / protest/adjusted against refund (₹) | Period to which the amount relates | Forum where dispute is pending                  |
|---------------------------|-------------------|------------|--|------------------------------------|---|
| The Central Sales Tax Act | Central sales tax | 8,690,000  | 2,500,000  | Financial year 1997-98             | Honorable High Court of Andhra Pradesh          |
| The Income Tax Act, 1961  | Income tax        | 36,948,311 | 36,948,311   | A.Y. 2005-06                       | Income Tax                                      |
|                           |                   | 65,054,901 | 65,054,901   | A.Y. 2006-07                       | Appellate tribunal, Hyderabad                   |
|                           |                   | 74,055,385 | 74,055,385   | A.Y. 2008-09                       | Hyderabad                                       |
|                           |                   | 6,924,266  | 6,924,266  | A.Y. 2009-10                       | Commissioner of Income Tax (Appeals), Hyderabad |
|                           |                   | 18,447,645 | 18,447,645   | A.Y. 1989-90 to 1998-99            | Honorable High Court of Andhra Pradesh          |
|                           |                   | 17,205,680 | 17,205,680   | A.Y. 1989-90 to 1998-99            | Income Tax Appellate Tribunal, Hyderabad        |

- (x) In our opinion, the Company has no accumulated losses at the end of the financial year and it has not incurred cash losses in the current and the immediately preceding financial year.
- (xi) The Company has not defaulted in repayment of dues to any bank or financial institution during the year. The Company did not have any outstanding debentures during the year.
- (xii) The Company has not granted any loans and advances on the basis of security by way of pledge of shares, debentures and other securities. Accordingly, the provisions of clause 4(xii) of the Order are not applicable.
- (xiii) In our opinion, the Company is not a chit fund or a nidhi/ mutual benefit fund/ society. Accordingly, the provisions of clause 4(xiii) of the Order are not applicable.
- (xiv) In our opinion, the Company is not dealing or trading in shares, securities, debentures and other investments. Accordingly, the provisions of clause 4(xiv) of the Order are not applicable.

- (xv) The Company has not given any guarantees for loans taken by others from banks or financial institutions. Accordingly, the provisions of clause 4(xv) of the Order are not applicable.
- (xvi) In our opinion, the term loans were applied for the purpose for which the loans were obtained, though idle/surplus funds which were not required for immediate utilization have been invested in liquid investments, payable on demand.
- (xvii) In our opinion, no funds raised on short-term basis have been used for long-term investment.
- (xviii) During the year, the Company has not made any preferential allotment of shares to parties or companies covered in the register maintained under Section 301 of the Act. Accordingly, the provisions of clause 4(xviii) of the Order are not applicable.
- (xix) The Company has neither issued nor had any outstanding debentures during the year. Accordingly, the provisions of clause 4(xix) of the Order are not applicable.
- (xx) The Company has not raised any money by public issues during the year. Accordingly, the provisions of clause 4(xx) of the Order are not applicable.
- (xxi) No fraud on or by the Company has been noticed or reported during the period covered by our audit.

For **Walker, Chandiok & Co**  
Chartered Accountants  
Firm Registration No: 001076N

per **Sanjay Kumar**  
Partner  
Membership No. 207660

Place : Hyderabad  
Date : 28 May 2012



## BALANCE SHEET AS AT 31ST MARCH, 2012

(All amounts in ₹, unless otherwise stated)

|                                  | Notes | As at<br>31 March, 2012     | As at<br>31 March, 2011     |
|----------------------------------|-------|-----------------------------|-----------------------------|
| <b>I. EQUITY AND LIABILITIES</b> |       |                             |                             |
| <b>Shareholders' funds</b>       |       |                             |                             |
| Share capital                    | 3     | 311,479,520                 | 281,479,520                 |
| Reserves and surplus             | 4     | 4,363,167,613               | 3,187,584,366               |
|                                  |       | <u>4,674,647,133</u>        | <u>3,469,063,886</u>        |
| <b>Non-current liabilities</b>   |       |                             |                             |
| Long-term borrowings             | 5     | 1,340,986,565               | 1,254,339,695               |
| Deferred tax liabilities (net)   | 6     | 288,939,908                 | 250,869,295                 |
| Other long term liabilities      | 7     | 13,536,275                  | 12,486,275                  |
| Long-term provisions             | 8     | 97,780,727                  | 86,723,329                  |
|                                  |       | <u>1,741,243,475</u>        | <u>1,604,418,594</u>        |
| <b>Current liabilities</b>       |       |                             |                             |
| Short-term borrowings            | 5     | 816,422,437                 | 720,225,466                 |
| Trade payables                   | 9     | 838,648,521                 | 729,891,067                 |
| Other current liabilities        | 10    | 818,383,935                 | 436,496,593                 |
| Short-term provisions            | 8     | 2,372,716                   | 1,194,504                   |
|                                  |       | <u>2,475,827,609</u>        | <u>1,887,807,630</u>        |
| <b>TOTAL</b>                     |       | <u><b>8,891,718,217</b></u> | <u><b>6,961,290,110</b></u> |
| <b>II. ASSETS</b>                |       |                             |                             |
| <b>Non-current assets</b>        |       |                             |                             |
| <b>Fixed assets</b>              |       |                             |                             |
| Tangible assets                  | 11    | 3,000,318,283               | 2,524,481,719               |
| Intangible assets                | 12    | 17,753,289                  | 16,995,669                  |
| Capital work-in-progress         |       | 1,644,271,788               | 759,794,585                 |
| Non-current investments          | 13    | 741,573,055                 | 690,502,270                 |
| Long-term loans and advances     | 14    | 549,095,155                 | 624,604,313                 |
| Other non-current assets         | 15    | 4,220,803                   | 9,553,782                   |
|                                  |       | <u>5,957,232,373</u>        | <u>4,625,932,338</u>        |
| <b>Current assets</b>            |       |                             |                             |
| Current investments              | 16    | 17,863,474                  | 21,390,451                  |
| Inventories                      | 17    | 972,834,410                 | 930,200,557                 |
| Trade receivables                | 18    | 933,359,241                 | 703,705,811                 |
| Cash and bank balances           | 19    | 336,972,901                 | 309,749,588                 |
| Short-term loans and advances    | 14    | 662,105,393                 | 369,236,233                 |
| Other current assets             | 20    | 11,350,425                  | 1,075,132                   |
|                                  |       | <u>2,934,485,844</u>        | <u>2,335,357,772</u>        |
| <b>TOTAL</b>                     |       | <u><b>8,891,718,217</b></u> | <u><b>6,961,290,110</b></u> |

Notes 1 to 42 form an integral part of these financial statements.

This is the balance sheet referred to in our report of even date.

For and on behalf of Board of Directors of  
NATCO Pharma Limited

For Walker, Chandio & Co.  
Chartered Accountants  
per Sanjay Kumar  
Partner

V.C. Nannapaneni  
Rajeev Nannapaneni

Chairman & Managing Director  
Director & Chief Operating Officer

Place: Hyderabad  
Date : 28 May, 2012

Dr. P. Bhaskara Narayana  
M. Adinarayana

Director & Chief Financial Officer  
Company Secretary & G M (Corp. Affairs)

**STATEMENT OF PROFIT AND LOSS FOR THE YEAR ENDED 31 MARCH 2012**

(All amounts in ₹, unless otherwise stated)

|   | Notes | For the year ended<br>31 March, 2012 | For the year ended<br>31 March, 2011 |
|---|-------|--------------------------------------|--------------------------------------|
| <b>REVENUE</b>  |       |                                      |                                      |
| Revenue from operations (gross)   | 21    | 4,389,127,504                        | 3,537,487,043                        |
| Less: Excise duty   |       | 69,137,773                           | 54,010,223                           |
| Revenue from operations (net)   |       | 4,319,989,731                        | 3,483,476,820                        |
| Other income  | 22    | 131,916,646                          | 51,869,616                           |
| <b>Total revenue</b>  |       | <b>4,451,906,377</b>                 | <b>3,535,346,436</b>                 |
| <b>EXPENSES</b>   |       |                                      |                                      |
| Cost of materials consumed<br>(including packing material consumed)                                 | 23    | 1,176,723,270                        | 960,104,130                          |
| Purchases of stock-in-trade   |       | 155,316,875                          | 167,273,362                          |
| Changes in inventories of finished goods,<br>work-in-progress and traded goods                      | 24    | 10,834,924                           | (117,615,437)                        |
| Employee benefit expenses   | 25    | 671,341,782                          | 534,386,844                          |
| Finance costs   | 26    | 229,595,364                          | 141,978,623                          |
| Depreciation and amortisation expense   | 11,12 | 154,051,694                          | 143,480,449                          |
| Other expenses  | 27    | 1,228,912,995                        | 1,065,895,168                        |
| <b>Total expenses</b>   |       | <b>3,626,776,904</b>                 | <b>2,895,503,139</b>                 |
| <b>Profit before tax</b>  |       | <b>825,129,473</b>                   | <b>639,843,296</b>                   |
| <b>Tax expense</b>  |       |                                      |                                      |
| Current tax   |       | 165,779,120                          | 136,115,500                          |
| Deferred tax (benefit)/expense  |       | 38,070,613                           | (17,475,030)                         |
| <b>Profit after tax</b>   |       | <b>621,279,740</b>                   | <b>521,202,826</b>                   |
| <b>Earnings per equity share [EPES]</b>   |       |                                      |                                      |
| Basic and diluted (face value ₹ 10 per share)   |       | 21.39                                | 18.52                                |
| Weighted average number of equity shares<br>considered for computation of Basic and<br>Diluted EPES |       | 29,041,395                           | 28,147,952                           |
| <b>Notes 1 to 42 form an integral part of these financial statements.</b>                           |       |                                      |                                      |

This is the statement of profit and loss referred to in our report of even date.

For and on behalf of Board of Directors of  
**NATCO Pharma Limited**

For **Walker, Chandio & Co.**  
Chartered Accountants  
per **Sanjay Kumar**  
Partner

**V.C. Nannapaneni**  
**Rajeev Nannapaneni**

Chairman & Managing Director  
Director & Chief Operating Officer

Place: Hyderabad  
Date : 28 May, 2012

**Dr. P. Bhaskara Narayana**  
**M. Adinarayana**

Director & Chief Financial Officer  
Company Secretary & G M (Corp. Affairs)

## NOTES TO THE FINANCIAL STATEMENTS

### 1. SIGNIFICANT ACCOUNTING POLICIES

#### a. Basis of preparation of financial statements

The financial statements are prepared under historical cost convention in accordance with the generally accepted accounting principles in India ("Indian GAAP") and comply in all material respects with the mandatory Accounting Standards ("AS") prescribed in the Companies (Accounting Standard) Rules, 2006, as amended, and with the relevant provisions of the Act, pronouncements of The Institute of Chartered Accountants of India ('ICAI'). The financial statements have been prepared under the historical cost convention on an accrual basis. The accounting policies applied by the Company are consistent with those used in the previous year.

Pursuant to the amendment to the Schedule VI to the Act, effective 1 April 2011 the Company has adopted revised Schedule VI for preparation and presentation of the financial statements and have reclassified previous year figures to conform to this year's presentation and classification. In relation to the Company, except accounting for dividend on investment in subsidiaries, the adoption of revised Schedule VI does not impact recognition and measurement principles followed in preparation of financial statements. However, it significantly impacts presentation and disclosures made in the financial statements.

#### b. Use of estimates

The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported balances of assets and liabilities and disclosures relating to contingent assets and liabilities as at the date of the financial statements and reported amounts of income and expenses during the period. Examples of such estimates include provisions for doubtful trade receivables and other receivables, provision for inventories, future obligations under employee retirement benefit plans, income taxes, and the useful lives of fixed assets.

Although these estimates are based upon management's best knowledge of current events

and actions, actual results could differ from these estimates. Any revision to accounting estimates is recognized prospectively in the current and future periods.

#### c. Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation and impairment losses, if any. Cost comprise of purchase price, freight, non-refundable duties, taxes and any other cost attributable to bringing the asset to its working condition for its intended use. Borrowing costs relating to acquisition of tangible fixed assets which takes substantial period of time to get ready for its intended use are also included to the extent they relate to the period till such assets are ready for its intended use. Assets retired from active use and held for disposal are stated at their estimated net realisable values or net book values, whichever is lower.

#### d. Depreciation

Depreciation is provided on straight line method based on useful lives of the assets as estimated by management which coincides with rates prescribed under Schedule XIV to the Act.

Depreciation on sale/discarded from fixed assets is provided for up to the date of sale /discarded as the case may be. Individual assets acquired for ₹5,000 or less are entirely depreciated in the year of acquisition.

#### e. Intangible assets

Intangible assets are recorded at the consideration paid for acquisition. Intangible assets are amortized over a period of 6 years, on a straight line basis.

#### f. Impairment of assets

The carrying amounts of assets, both tangible and intangible, are reviewed at each balance sheet date if there is any indication of impairment based on internal and/or external factors. An impairment loss is recognized wherever the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is greater of the asset's net selling price and value in use. In assessing value in use, the estimated future cash flows are



discounted to their present value at the weighted average cost of capital.

**g. Government grants**

Government grants relating to specific fixed assets are adjusted against the cost of underlying fixed assets and revenue grants are credited to Statement of profit and loss on a systematic basis in the Statement of profit and loss over the periods necessary to match them with the related costs which they are intended to compensate.

**h. Investments**

Investments that are readily realizable and intended to be held for not more than a year are classified as current investments. All other investments are classified as long term investments. Current investments are carried at lower of cost and fair value determined on an individual investment basis. Long term investments are carried at cost. However, provision for diminution in value is made to recognise a decline other than temporary in the value of the investments.

**i. Inventories**

Raw material, packaging material, stores and spare parts are carried at cost. Cost includes purchase price excluding taxes those are subsequently recoverable by the Company from the concerned revenue authorities, freight inwards and other expenditure incurred in bringing such inventories to their present location and condition. Cost is determined using the weighted average cost. The carrying cost of raw materials, packaging materials and stores and spare parts are appropriately written down when there is a decline in replacement cost of such materials and finished products in which they will be incorporated are expected to be sold below cost.

Manufactured finished goods, Work in progress and traded goods are valued at the lower of cost and net realizable value. Cost of work in progress and manufactured finished goods is determined on weighted average cost basis and comprises cost of direct material, cost of conversion and other costs incurred in bringing these inventories to their present location and condition. Cost of traded goods is determined on weighted average basis. Excise duty liability is included in the valuation of closing inventory of finished goods.

**j. Research and development**

Expenditure incurred on research activity is expensed as and when incurred.

**k. Revenue recognition**

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and collectability is reasonably assured.

- Revenue from sale of goods is recognized on dispatch or on the date of the bill of lading or airway bill in respect of export sales, which coincides with transfer of significant risks and rewards to customer and is inclusive of excise duty and net of trade discounts, sales returns and sales tax, where applicable.
- Service income is recognized as per the terms of contracts with customers when the related services are performed, or the agreed milestones are achieved.
- Dividend income is recognized when the right to receive the payment is established. Income from interest on deposits, loans and interest bearing securities is recognized on the time proportionate methods taking into account the amount outstanding and the rate applicable.
- Export entitlements are recognized as income when the right to receive credit as per the terms of the scheme is established in respect of the exports made and where there is no significant uncertainty regarding the ultimate collection of the relevant export proceeds.
- Revenue from licensing and long term supply arrangements is recognized in the period in which the Company completes all its performance obligations.

**l. Taxes**

Tax expense comprises of current and deferred tax. Current income tax is measured at the amount expected to be paid to the tax authorities in accordance with the Indian Income Tax Act, 1961. Deferred income taxes reflect the impact of timing differences between taxable income and accounting income for the period and reversal of timing differences of earlier periods.

Deferred income taxes reflect the impact of timing differences between taxable income and

accounting income for the period and reversal of timing differences of earlier periods. Deferred tax is measured based on the tax rates and the tax laws enacted or subsequently enacted at the balance sheet date. Deferred tax assets are recognized only to the extent that there is reasonable certainty that sufficient future taxable income will be available against which such deferred tax assets can be realised.

In situations where the Company has unabsorbed depreciation or carry forward tax losses, all deferred tax assets are recognized only if there is a virtual certainty supported by convincing evidence that they can be realised against future taxable profits.

Unrecognized deferred tax assets of earlier years are re-assessed and recognized to the extent that it has become reasonably certain or virtually certain, as the case may be that future taxable income will be available against which such deferred tax assets can be realised. The carrying amount of deferred tax assets are reviewed at each balance sheet date.

The Company writes-down the carrying amount of a deferred tax asset to the extent that it is no longer reasonably certain or virtually certain, as the case maybe, that sufficient future taxable income will be available against which deferred tax asset can be realised. Any such write-down is reversed to the extent that it becomes reasonably certain or virtually certain, as the case may be, that sufficient future taxable income will be available.

Minimum Alternative tax (MAT) credit is recognized as an asset only when and to the extent there is convincing evidence that the Company will pay normal income tax during the specified period. In the year in which the MAT credit becomes eligible to be recognized as an asset in accordance with the recommendations contained in guidance note issued by the ICAI, the said asset is created by way of a credit to the Statement of profit and loss and shown as MAT credit entitlement. The Company reviews the same at each balance sheet date and writes down the carrying amount of MAT credit entitlement to the extent there is no longer convincing evidence to the effect that Company will pay normal income tax during the specified period.

#### **m. Earnings per equity share**

Basic earnings per share are calculated by dividing the net profit or loss for the period attributable to equity shareholders by the weighted average number of equity shares outstanding during the period. For the purpose of calculating diluted earnings per share, the net profit or loss for the period attributable to equity shareholders and the weighted average number of shares outstanding during the period are adjusted for the effects of all dilutive potential equity shares.

#### **n. Foreign currency transactions**

##### *Initial recognition*

Foreign currency transactions are recorded in the reporting currency, by applying to the foreign currency amount the exchange rate between the reporting currency and the foreign currency at the date of the transaction.

##### *Conversion*

Foreign currency monetary items are reported using the closing rate. Non-monetary items which are carried in terms of historical cost denominated in a foreign currency are reported using the exchange rate at the date of the transaction; and non-monetary items which are carried at fair value or other similar valuation denominated in a foreign currency are reported using the exchange rates that existed when the values were determined.

##### *Exchange differences*

Exchange differences arising on the settlement of monetary items or on reporting Group's monetary items at rates different from those at which they were initially recorded during the year, or reported in previous financial statements, are recognized as income or as expenses in the year in which they arise, except in the case of exchange differences arising on a monetary item that, in substance, forms part of an enterprise's net investment in a non-integral foreign operation has been accumulated in a foreign currency translation reserve in the enterprise's financial statements until the disposal of the net investment, at which time they should be recognized as income or as expenses.

**o. Employee benefits**

*Provident fund*

The Company contributes to the provident fund maintained by the Regional Provident Fund Commissioner, in accordance with Employees provident fund and Miscellaneous Provision Act, 1952. The provident fund plan is a defined contribution plan and contribution paid or payable is recognized as an expense in the period in which the employee renders services. There are no other obligations of the Company other than the contributions made to the fund.

*Gratuity*

Gratuity is a post-employment defined benefit plan. An independent actuary, using the projected unit credit method calculates the defined benefit obligation annually. Actuarial gains or losses arising from experience adjustments and changes in actuarial assumptions are credited or charged to the Statement of profit and loss in the period in which such gains or losses arises.

*Employee state insurance*

The Company contributes to the Employees State Insurance Fund maintained by the state authorities, in accordance with Employees State Insurance Act, 1948. The plan is a defined contribution plan and contribution paid or payable is recognized as an expense in the period in which the employee renders services. There are no other obligations of the Company other than the contributions made to the funds.

*Compensated absences*

As per the Company's policy, eligible leaves can be accumulated by the employees and carried forward to future periods either to be utilized during the service, or encashed. Encashment can be made during service or on resignation, or retirement of the employee. The value of benefits is determined based on an independent actuarial valuation using the projected unit credit method as at the year end. Actuarial gains and losses are recognized immediately in the Statement of profit and loss.

**p. Leases**

Where the lessor effectively retains all risk and benefits of ownership of the leased items, such leases are classified as operating lease. Operating lease payments are recognized as an expense in the Statement of profit and loss on a straight line basis.

**q. Provisions and contingent liabilities**

A provision is recognized when the Company has a present obligation as a result of past event i.e., it is probable that an outflow of resources will be required to settle the obligation in respect of which a reliable estimate can be made. Provisions are not discounted to its present value and are determined based on best estimate required to settle the obligation at the balance sheet date. These are reviewed at each balance sheet date and adjusted to reflect the current best estimates. A disclosure of the contingent liability is made when there is a possible or a present obligation that may, but probably will not, require an outflow of resources.

**r. Cash flow statement**

Cash flows are reported using the indirect method, whereby net profit before tax is adjusted for the effects of transactions of a non-cash nature and any deferrals or accruals of past or future cash receipts or payments.

**s. Cash and cash equivalents**

Cash and cash equivalents in the balance sheet comprise cash at bank and in hand and short-term investments.

**2. RECOGNITION OF MINIMUM ALTERNATE TAX (MAT) CREDIT**

The Company has not recognized MAT credit available to it as it opines that it would not be in a position to utilize such credit in view of the continued tax holiday being available for the profits arising out of manufacture and sales made from two of its manufacturing facilities. In the eventuality of the Company being made to pay tax on a regular basis, it would make suitable adjustments by taking credit for the MAT entitlement available at such point of time.



## NOTES TO THE FINANCIAL STATEMENTS

(All amounts in ₹, unless otherwise stated)

|   | As at 31 March 2012 |                    | As at 31 March 2011 |                    |
|---|---------------------|--------------------|---------------------|--------------------|
|   | Number              | Amount             | Number              | Amount             |
| <b>3. SHARE CAPITAL</b>                     |                     |                    |                     |                    |
| <b>Authorised share capital</b>             |                     |                    |                     |                    |
| Equity shares of ₹10 each                   | 32,000,000          | 320,000,000        | 35,000,000          | 350,000,000        |
| Preference shares of ₹10 each               | 3,000,000           | 30,000,000         | -                   | -                  |
| <b>Issued, subscribed and fully paid up</b> |                     |                    |                     |                    |
| Equity shares of ₹10 each                   | 31,147,952          | 311,479,520        | 28,147,952          | 281,479,520        |
| <b>TOTAL</b>                                | <b>31,147,952</b>   | <b>311,479,520</b> | <b>28,147,952</b>   | <b>281,479,520</b> |

**(a) Shareholders holding more than 5% of the equity shares**

|   | As at 31 March 2012 |        | As at 31 March 2011 |        |
|---|---------------------|--------|---------------------|--------|
|   | Number              | %      | Number              | %      |
| Mr. V C Nannapaneni **                      | 8,023,838           | 25.76% | 8,009,009           | 28.45% |
| Time Cap Pharma Labs Ltd                    | 3,409,694           | 10.95% | 3,398,179           | 12.07% |
| Natsoft Information Systems Private Limited | 3,153,500           | 10.12% | 3,153,500           | 11.20% |

\*\* including shares held by Mr. V C Nannapaneni, in the capacity of Karta of HUF of 1,088,009 (2011:1,073,180)

**(b) Reconciliation of equity share capital**

|                                       | Number            | Amount             | Number            | Amount             |
|---------------------------------------|-------------------|--------------------|-------------------|--------------------|
| Balance at the beginning of the year  | 28,147,952        | 281,479,520        | 28,147,952        | 281,479,520        |
| Add: Issued during the year           | 3,000,000         | 30,000,000         | -                 | -                  |
| <b>Balance at the end of the year</b> | <b>31,147,952</b> | <b>311,479,520</b> | <b>28,147,952</b> | <b>281,479,520</b> |

**(c) Rights, preferences, restrictions**

The Company has outstanding of only one class of equity shares having a par value of ₹10 per share. Each holder of equity shares is entitled to one vote per share. The Company declares and pays dividend in Indian rupees. The dividend proposed by the Board of Directors is subject to the approval of the shareholders in the ensuing Annual General Meeting.

**(d) Shares reserved for issue under options and contracts**

The Company had instituted NATCO Stock Option Plan 2010 ("ESOP 2010"). The scheme duly approved by way of a special resolution passed in the annual general meeting of the members held on 30 September 2010 was formulated in compliance with Securities and Exchange Board of India (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999 ("SEBI ESOP Guidelines") issued by the Securities and Exchange Board of India ("SEBI") and pursuant to the provisions of Section 81 (1A) and other applicable provisions of the Act. Pursuant to such approval, the Board is authorized to issue employee stock options, that are exercisable into not more than 600,000 equity shares of the Company to eligible employees based on specific recommendations of the remuneration committee. Each option comprises of one underlying equity share of ₹10 each. As at 31 March 2012 (2011: Nil) no options were granted under the said plan.

**(e) Details of shares issued pursuant to contract without payment being received in cash and brought back during the last 5 years, immediately preceding the balance sheet date.**

|  | As at<br>31 March, 2012<br>No. | As at<br>31 March, 2011<br>No. |
|--|--------------------------------|--------------------------------|
| Equity shares of ₹10 each allotted as fully paid-up pursuant to contracts without payment being received in cash** | 211,600                        | 323,150                        |
| Equity shares bought back by the Company   | 458,465                        | 492,881                        |

\*\* The Company has issued these shares during the period of five years, on exercise of the options granted under the employee stock option plan (ESOP) wherein part consideration was received in form of employee services.

**NOTES TO THE FINANCIAL STATEMENTS**

(All amounts in ₹, unless otherwise stated)

|   | As at<br>31 March, 2012     | As at<br>31 March, 2011     |
|---|-----------------------------|-----------------------------|
| <b>4. RESERVES AND SURPLUS</b>                                |                             |                             |
| <b>Capital reserves</b>                                       |                             |                             |
| Balance at the beginning of the year                          | 204,272,762                 | 204,072,762                 |
| Add : Additions during the year [Refer (b) below]             | 3,000,000                   | 200,000                     |
| Balance at the end of the year                                | <u>207,272,762</u>          | <u>204,272,762</u>          |
| <b>Capital redemption reserve - as per last balance sheet</b> | 4,928,810                   | 4,928,810                   |
| <b>Securities premium reserve</b>                             |                             |                             |
| Balance at the beginning of the year                          | 819,328,761                 | 819,328,761                 |
| Add : Additions during the year [Refer (c) below]             | 645,000,000                 | -                           |
| Balance at the end of the year                                | <u>1,464,328,761</u>        | <u>819,328,761</u>          |
| <b>General reserve</b>  |                             |                             |
| Balance at the beginning of the year                          | 177,161,000                 | 137,161,000                 |
| Add : Additions during the year [Refer (a) below]             | 70,000,000                  | 40,000,000                  |
| Balance at the end of the year                                | <u>247,161,000</u>          | <u>177,161,000</u>          |
| <b>Foreign currency translation reserve</b>                   |                             |                             |
| Balance at the beginning of the year                          | 19,430,092                  | 20,452,033                  |
| Add : Adjustments during the year                             | 14,906,293                  | (1,021,941)                 |
| Balance at the end of the year                                | <u>34,336,385</u>           | <u>19,430,092</u>           |
| <b>Surplus in the statement of profit and loss</b>            |                             |                             |
| Balance at the beginning of the year                          | 1,962,462,941               | 1,546,906,065               |
| Add : Profit for the year                                     | 621,279,740                 | 521,202,826                 |
| Less: Interim dividend - ₹3 (2011: ₹2) per share              | 93,443,856                  | 56,295,904                  |
| Less: Tax on distributed profits                              | 15,158,930                  | 9,350,046                   |
| Less: Transferred to general reserve                          | 70,000,000                  | 40,000,000                  |
| Balance at the end of the year                                | <u>2,405,139,895</u>        | <u>1,962,462,941</u>        |
|   | <u><u>4,363,167,613</u></u> | <u><u>3,187,584,366</u></u> |

**(a) Transfer to general reserve**

In accordance with the provisions of Companies (Transfer of Profits to Reserves) Rules, 1975, based on the amount of dividend declared, the Company has transferred ₹70,000,000 [2011: ₹40,000,000] to general reserve.

**(b) Additions to capital reserves**

During the financial year ended 31 March 2012, the Company received government subsidy aggregating to ₹3,000,000 (2011: ₹200,000) for the purpose of capital activities in the State of Uttarakhand. Pursuant to the terms of 2011-12 grant, assets up to the amount of grant received, has been hypothecated in favour of Director of Industries, Government of Uttarakhand.

**(c) Issue of equity shares at premium**

During the current year, the Company has issued 3,000,000 equity shares of ₹10 each, fully paid-up at a premium of ₹215, through a private placement to Qualified Institutional Investors.



## NOTES TO THE FINANCIAL STATEMENTS

(All amounts in ₹, unless otherwise stated)

|                                  | As at 31 March 2012  |                    | As at 31 March 2011  |                    |
|----------------------------------|----------------------|--------------------|----------------------|--------------------|
|                                  | Long term            | Short term         | Long term            | Short term         |
| <b>5. BORROWINGS</b>             |                      |                    |                      |                    |
| <b>Secured [refer note 31]</b>   |                      |                    |                      |                    |
| <b>Term loans</b>                |                      |                    |                      |                    |
| From banks                       | 726,248,938          | -                  | 424,496,853          | -                  |
| From other parties               | 614,176,471          | -                  | 827,647,059          | -                  |
|                                  | <u>1,340,425,409</u> | -                  | <u>1,252,143,912</u> | -                  |
| <b>Unsecured</b>                 |                      |                    |                      |                    |
| Deferred payment liabilities     | 561,156              | -                  | 2,195,783            | -                  |
| <b>Loans repayable on demand</b> |                      |                    |                      |                    |
| <b>Secured [refer note 31]</b>   |                      |                    |                      |                    |
| From banks                       | -                    | 717,089,070        | -                    | 720,225,466        |
| <b>Unsecured [refer note 31]</b> |                      |                    |                      |                    |
| From banks                       | -                    | 99,333,367         | -                    | -                  |
| <b>Total borrowings</b>          | <u>1,340,986,565</u> | <u>816,422,437</u> | <u>1,254,339,695</u> | <u>720,225,466</u> |

### Loans repayable on demand

Loans repayable on demand represents cash credit, overdraft, bills purchased and discounted with various banks/ financial institutions.

### Deferred payment liabilities

It represents interest free sales tax deferment, availed under the TARGET 2000 Scheme of the State Government of Andhra Pradesh.

|  | As at<br>31 March, 2012 | As at<br>31 March, 2011 |
|--|-------------------------|-------------------------|
| <b>6. DEFERRED TAX LIABILITY, NET</b>      |                         |                         |
| On account of depreciation                 | 313,976,066             | 269,485,323             |
| On account of employee benefits and others | <u>(25,036,158)</u>     | <u>(18,616,028)</u>     |
| Net deferred tax liability                 | <u>288,939,908</u>      | <u>250,869,295</u>      |
| <b>7. OTHER LONG TERM LIABILITIES</b>      |                         |                         |
| Trade deposits                             | 13,536,275              | 12,486,275              |
|  | <u>13,536,275</u>       | <u>12,486,275</u>       |

## NOTES TO THE FINANCIAL STATEMENTS

(All amounts in ₹, unless otherwise stated)

|  | As at 31 March 2012 |                  | As at 31 March 2011 |                  |
|--|---------------------|------------------|---------------------|------------------|
|  | Long term           | Short term       | Long term           | Short term       |
| <b>8. PROVISIONS</b>                             |                     |                  |                     |                  |
| Provisions for employee benefits [Refer b below] | 65,905,727          | 2,372,716        | 54,848,329          | 1,194,504        |
| Provision for contingencies [Refer a below]      | 31,875,000          | -                | 31,875,000          | -                |
|  | <u>97,780,727</u>   | <u>2,372,716</u> | <u>86,723,329</u>   | <u>1,194,504</u> |

**a. Provision for contingencies represents:**

Provision for contingencies represents, possible obligations that may arise in view of uncertainties associated with certain revenue transactions entered into by the company.

|                                      | As at<br>31 March, 2012 | As at<br>31 March, 2011 |
|--------------------------------------|-------------------------|-------------------------|
| <b>Reconciliation</b>                |                         |                         |
| Opening balance                      | 31,875,000              | -                       |
| Additions during the year            | -                       | 31,875,000              |
| Reversal/utilization during the year | -                       | -                       |
| Closing balance                      | <u>31,875,000</u>       | <u>31,875,000</u>       |

**b. Employee benefits**

Provision for employee benefits includes provision towards gratuity of ₹45,868,185 (2011: ₹32,152,749) and compensated absences of ₹22,410,258 (2011: ₹23,890,084).

The Company has subscribed to a group gratuity scheme of Life Insurance Corporation of India (LIC). Under this policy the eligible employees are entitled for gratuity upon their resignation or in the event of death in lumpsum after deduction of necessary taxes upto a maximum limit of ₹1,000,000. The following table sets out the status of the gratuity plan and the reconciliation of opening and closing balances of the defined benefit obligation.

|  | As at<br>31 March, 2012 | As at<br>31 March, 2011 |
|--|-------------------------|-------------------------|
| <b>i. Change in projected benefit obligation</b>   |                         |                         |
| Projected benefit obligation at the beginning of the year                                  | 58,231,217              | 55,081,820              |
| Service cost   | 4,282,414               | 3,494,236               |
| Interest cost  | 4,658,497               | 4,406,546               |
| Actuarial (gain)/loss  | 7,133,657               | (2,872,373)             |
| Benefits paid  | (1,143,748)             | (1,879,012)             |
| Projected benefit obligation at the end of the year  | <u>73,162,037</u>       | <u>58,231,217</u>       |
| <b>ii. Change in plan assets</b>   |                         |                         |
| Fair value of plan assets at the beginning of the year                                     | 26,078,468              | 22,240,895              |
| Expected return on plan assets   | 2,359,132               | 2,086,285               |
| Contribution paid  | -                       | 3,630,300               |
| Benefits paid  | (1,143,748)             | (1,879,012)             |
| Fair value of plan assets at the end of the year   | <u>27,293,852</u>       | <u>26,078,468</u>       |
| <b>iii. Reconciliation of present value of obligation on the fair value of plan assets</b> |                         |                         |
| Present value of projected benefit obligation at the end of the year                       | 73,162,037              | 58,231,217              |
| Funded status of the plans   | 27,293,852              | 26,078,468              |
| Liability recognised in the balance sheet  | <u>45,868,185</u>       | <u>32,152,749</u>       |



## NOTES TO THE FINANCIAL STATEMENTS

(All amounts in ₹, unless otherwise stated)

|   | For the year ended<br>31 March, 2012 | For the year ended<br>31 March, 2011 |
|---|--------------------------------------|--------------------------------------|
| <b>Employee benefits (Contd.)</b>   |                                      |                                      |
| <b>iv. Components of net gratuity costs are</b>   |                                      |                                      |
| Service cost  | 4,282,414                            | 3,494,236                            |
| Interest cost   | 4,658,497                            | 4,406,546                            |
| Expected returns on plan assets   | (2,359,132)                          | (2,086,285)                          |
| Recognized net actuarial (gain)/ loss   | 7,133,657                            | (2,872,373)                          |
| Net gratuity costs  | <u>13,715,436</u>                    | <u>2,942,124</u>                     |
| Assumptions used  |                                      |                                      |
| Discount rate   | 8%                                   | 8%                                   |
| Long-term rate of compensation increase   | 4%                                   | 4%                                   |
| Rate of return on plan assets   | <u>9.25%</u>                         | <u>9.25%</u>                         |
| The Company assesses these assumptions with the projected long-term plans of growth and prevalent industry standards.   |                                      |                                      |
|   | <b>As at<br/>31 March, 2012</b>      | <b>As at<br/>31 March, 2011</b>      |
| <b>9. TRADE PAYABLES</b>  |                                      |                                      |
| Sundry creditors  |                                      |                                      |
| Dues to micro and small enterprises [Refer (a) below]   | 31,007,455                           | 29,724,329                           |
| Dues to others  |                                      |                                      |
| - Creditors for purchases and expenses  | 659,898,198                          | 614,867,399                          |
| - Employee and other payables   | 147,742,868                          | 85,299,339                           |
|   | <u>838,648,521</u>                   | <u>729,891,067</u>                   |
| The management has identified creditors covered by Micro, Small and Medium Enterprises Development Act, 2006 (MSMEDA). Accordingly, disclosures in respect of the amounts payable to such enterprises as at 31 March 2012 has been made in note 33 to the financials statements and such disclosures is based on information received and available with the Company. |                                      |                                      |
| <b>10. OTHER CURRENT LIABILITIES</b>  |                                      |                                      |
| Current maturities of long term debt  |                                      |                                      |
| - From banks  | 237,946,674                          | 125,000,000                          |
| - From other parties  | 189,470,588                          | 97,352,941                           |
| Current maturities of unsecured loans   | 1,616,169                            | 1,908,151                            |
| Creditors for capital assets  | 210,171,583                          | 159,900,178                          |
| Book overdraft  | 31,000,614                           | -                                    |
| Interest accrued but not due on borrowings  | 11,093,108                           | 1,485,256                            |
| Advance from customers  | 106,307,670                          | 26,804,530                           |
| Unpaid dividends  | 6,031,940                            | 4,150,192                            |
| Statutory liabilities   | 24,745,589                           | 19,895,345                           |
|   | <u>818,383,935</u>                   | <u>436,496,593</u>                   |



**NOTES TO THE FINANCIAL STATEMENTS**

(All amounts in ₹, unless otherwise stated)

**11. TANGIBLE ASSETS**

| Gross block                        | Freehold land      | Leasehold land    | Buildings            | Plant and equipment  | Office equipment  | Furniture         | Vehicles          | Computers         | Total                |
|------------------------------------|--------------------|-------------------|----------------------|----------------------|-------------------|-------------------|-------------------|-------------------|----------------------|
| Balance as at 1 April 2010         | 231,566,534        | 16,725,782        | 1,015,869,008        | 1,755,433,306        | 21,799,382        | 18,062,884        | 53,059,312        | 64,501,510        | 3,177,017,718        |
| Additions                          | 28,247,566         | -                 | 52,980,679           | 232,902,493          | 872,342           | 6,090,180         | 21,673,787        | 3,819,313         | 346,586,360          |
| Disposals                          | -                  | -                 | -                    | -                    | -                 | -                 | 5,028,341         | -                 | 5,028,341            |
| <b>Balance as at 31 March 2011</b> | <b>259,814,100</b> | <b>16,725,782</b> | <b>1,068,849,687</b> | <b>1,988,335,799</b> | <b>22,671,724</b> | <b>24,153,064</b> | <b>69,704,758</b> | <b>68,320,823</b> | <b>3,518,575,737</b> |
| Additions                          | 69,823,025         | -                 | 200,203,695          | 335,477,601          | 1,136,932         | 9,123,533         | 6,685,026         | 3,501,988         | 625,951,800          |
| <b>Balance as at 31 March 2012</b> | <b>329,637,125</b> | <b>16,725,782</b> | <b>1,269,053,382</b> | <b>2,323,813,400</b> | <b>23,808,656</b> | <b>33,276,597</b> | <b>76,389,784</b> | <b>71,822,811</b> | <b>4,144,527,537</b> |
| Accumulated depreciation           |                    |                   |                      |                      |                   |                   |                   |                   |                      |
| Up to 1 April 2010                 | -                  | 942,678           | 176,747,423          | 569,775,326          | 7,213,487         | 11,405,114        | 28,276,441        | 60,817,308        | 855,177,777          |
| Depreciation charge                | -                  | 118,028           | 36,689,240           | 91,848,393           | 1,095,052         | 2,175,722         | 5,977,477         | 2,892,292         | 140,796,204          |
| Reversal on disposal of assets     | -                  | -                 | -                    | -                    | -                 | -                 | 1,879,963         | -                 | 1,879,963            |
| <b>Up to 31 March 2011</b>         | <b>-</b>           | <b>1,060,706</b>  | <b>213,436,663</b>   | <b>661,623,719</b>   | <b>8,308,539</b>  | <b>13,580,836</b> | <b>32,373,955</b> | <b>63,709,600</b> | <b>994,094,018</b>   |
| Depreciation charge                | -                  | 188,536           | 36,638,885           | 103,133,452          | 1,139,428         | 3,120,645         | 4,744,790         | 1,149,500         | 150,115,236          |
| <b>Up to 31 March 2012</b>         | <b>-</b>           | <b>1,249,242</b>  | <b>250,075,548</b>   | <b>764,757,171</b>   | <b>9,447,967</b>  | <b>16,701,481</b> | <b>37,118,745</b> | <b>64,859,100</b> | <b>1,144,209,254</b> |
| <b>Net block</b>                   |                    |                   |                      |                      |                   |                   |                   |                   |                      |
| Balance as at 31 March 2011        | 259,814,100        | 15,665,076        | 855,413,024          | 1,326,712,080        | 14,363,185        | 10,572,228        | 37,330,803        | 4,611,223         | 2,524,481,719        |
| <b>Balance as at 31 March 2012</b> | <b>329,637,125</b> | <b>15,476,540</b> | <b>1,018,977,834</b> | <b>1,559,056,229</b> | <b>14,360,689</b> | <b>16,575,116</b> | <b>39,271,039</b> | <b>6,963,711</b>  | <b>3,000,318,283</b> |

(a) Leasehold land include land acquired from the State Industrial Development Corporation of Uttarakhnad Limited, for a period of 90 years and from Uttar Pradesh State Industrial Development Corporation Limited for a period of 87 years.

(b) Please refer note 26 for borrowing cost capitalized during the year.



## NOTES TO THE FINANCIAL STATEMENTS

(All amounts in ₹, unless otherwise stated)

### 12. INTANGIBLE ASSETS

| Gross block                        | Computer Software | Total             |
|------------------------------------|-------------------|-------------------|
| <b>Balance as at 1 April 2010</b>  | <b>12,859,860</b> | <b>12,859,860</b> |
| Additions                          | 9,517,378         | 9,517,378         |
| <b>Balance as at 31 March 2011</b> | <b>22,377,238</b> | <b>22,377,238</b> |
| Additions                          | 4,694,078         | 4,694,078         |
| <b>Balance as at 31 March 2012</b> | <b>27,071,316</b> | <b>27,071,316</b> |
| <b>Accumulated amortisation</b>    |                   |                   |
| <b>Up to 1 April 2010</b>          | <b>2,697,324</b>  | <b>2,697,324</b>  |
| Amortization charge                | 2,684,245         | 2,684,245         |
| <b>Up to 31 March 2011</b>         | <b>5,381,569</b>  | <b>5,381,569</b>  |
| Amortization charge                | 3,936,458         | 3,936,458         |
| <b>Up to 31 March 2012</b>         | <b>9,318,027</b>  | <b>9,318,027</b>  |
| <b>Net block</b>                   |                   |                   |
| Balance as at 31 March 2011        | 16,995,669        | 16,995,669        |
| <b>Balance as at 31 March 2012</b> | <b>17,753,289</b> | <b>17,753,289</b> |

|   | As at 31 March 2012 |                | As at 31 March 2011 |                |
|---|---------------------|----------------|---------------------|----------------|
|   | Trade               | Others         | Trade               | Others         |
| <b>13. NON-CURRENT INVESTMENTS</b>  |                     |                |                     |                |
| (Valued at cost unless stated otherwise)  |                     |                |                     |                |
| <b>Investments in equity instruments</b>  |                     |                |                     |                |
| <i>Investments in subsidiaries</i>  |                     |                |                     |                |
| 1,000 (2011: 1,000) fully paid-up, non-assessable shares of US\$1,000 each in Natco Pharma Inc., Delaware, United States of America | 41,849,274          | -              | 41,849,274          | -              |
| 91,785 (2011: Nil) equity shares of US\$10 each, fully paid-up in Timecap Overseas Limited, Mauritius                               | 40,914,029          | -              | -                   | -              |
| Share application money in Timecap Overseas Limited, Mauritius  | 40,926,944          | -              | 30,770,188          | -              |
|   | <b>123,690,247</b>  | <b>-</b>       | <b>72,619,462</b>   | <b>-</b>       |
| <i>Others</i>   |                     |                |                     |                |
| 750 (2011: 750) equity shares of 100 each, fully paid-up, in Jeedimetla Effluent Treatment Limited                                  | 75,000              | -              | 75,000              | -              |
| 34,400 (2011: 34,400) equity shares of 10 each, fully paid-up, in Pattancheru Enviro-Tech Limited                                   | 344,000             | -              | 344,000             | -              |
| 27,000 (2011: 27,000) equity shares of 10 each, fully paid-up in Jayalakshi Spinning Mills Limited                                  | -                   | 270,000        | -                   | 270,000        |
| Share application money in NATCO Organics Limited   | 602,459,898         | -              | 602,459,898         | -              |
|   | <b>602,878,898</b>  | <b>270,000</b> | <b>602,878,898</b>  | <b>270,000</b> |
| <b>Total investments in equity instruments (A)</b>  | <b>726,569,145</b>  | <b>270,000</b> | <b>675,498,360</b>  | <b>270,000</b> |

**NOTES TO THE FINANCIAL STATEMENTS**

(All amounts in ₹, unless otherwise stated)

|  | As at 31 March 2012 |             | As at 31 March 2011 |             |
|--|---------------------|-------------|---------------------|-------------|
|  | Trade               | Others      | Trade               | Others      |
| <b>NON-CURRENT INVESTMENTS (Contd.)</b>  |                     |             |                     |             |
| <b>Other non-current investments</b>   |                     |             |                     |             |
| Investment in portfolio management services<br>15,000,000 (2011: 12,219,036) compulsorily convertible<br>preference shares of ₹1 each, fully paid-up in<br>Ravindranath GE Medical Associates Private Limited. | -                   | 15,000,000  | -                   | 12,219,036  |
| Nil (2011: 272,644) units at ₹10.02 each in<br>HDFC Cash Management Fund   | -                   | -           | -                   | 2,780,964   |
|  | -                   | 15,000,000  | -                   | 15,000,000  |
| National savings certificates  | -                   | 3,910       | -                   | 3,910       |
| <b>Total (B)</b>   | -                   | 15,003,910  | -                   | 15,003,910  |
| <b>Total non-current investments (A+B)</b>   | 726,569,145         | 15,273,910  | 675,498,360         | 15,273,910  |
| Less: provision for diminution in value of investments   | -                   | 270,000     | -                   | 270,000     |
|  | 726,569,145         | 15,003,910  | 675,498,360         | 15,003,910  |
| Quoted investments   |                     | 270,000     |                     | 270,000     |
| Market value of quoted investments   |                     | -           |                     | -           |
| Unquoted investments [including share application money]   |                     | 741,573,055 |                     | 690,502,270 |
| Provision for diminution in value of investments   |                     | 270,000     |                     | 270,000     |

**Investment in portfolio management services**

As at 31 March 2012 the Company has made an investment, aggregating to ₹15,000,000 in the private equity opportunities fund of Anand Rathi Financial Services Limited (ARFSL). By virtue of shareholders agreement and share subscription agreement, both dated 29 November 2010, ARFSL has invested, among others, the investment made by the Company, in the Compulsorily Convertible Preference Shares of Ravindranath GE Medical Associates Private Limited. The company's investment in the private equity opportunities fund of ARFSL provides for a return of 20% in excess of 16% on a gross pre-tax IRR basis. In the absence of reasonable certainty of realization of return, no income was accrued on such investment for the year ended 31 March 2012.

|                                       | As at 31 March 2012 |             | As at 31 March 2011 |             |
|---------------------------------------|---------------------|-------------|---------------------|-------------|
|                                       | Long term           | Short term  | Long term           | Short term  |
| <b>14. LOANS AND ADVANCES</b>         |                     |             |                     |             |
| <i>Unsecured, considered good</i>     |                     |             |                     |             |
| Capital advances                      | 177,290,805         | -           | 227,351,343         | -           |
| Security deposits                     | 20,112,112          | -           | 15,584,362          | -           |
| Advance tax, net                      | -                   | 140,517,257 | -                   | 80,857,658  |
| Loans and advances to related parties | 351,692,238         | 176,208,570 | 381,668,608         | 41,250,000  |
| Prepaid expenses                      | -                   | 17,440,864  | -                   | 10,560,575  |
| Balances with government authorities  | -                   | 237,169,435 | -                   | 159,106,954 |
| Advances for purchases and expenses   | -                   | 69,377,065  | -                   | 56,980,657  |
| Other advances                        | -                   | 21,392,202  | -                   | 20,480,389  |
|                                       | 549,095,155         | 662,105,393 | 624,604,313         | 369,236,233 |

Loans and advances to related parties include ₹425,478,283 [2011: ₹306,077,225] advanced to a related party against future supplies. Short term portion of such advances is identified by management based on expected supplies during the subsequent financial year.



## NOTES TO THE FINANCIAL STATEMENTS

(All amounts in ₹, unless otherwise stated)

|   | As at<br>31 March, 2012 | As at<br>31 March, 2011 |
|---|-------------------------|-------------------------|
| <b>15. OTHER NON-CURRENT ASSETS</b>   |                         |                         |
| Non-current bank balances (Refer note 19)   | 4,220,803               | 9,553,782               |
|   | <u>4,220,803</u>        | <u>9,553,782</u>        |
| <b>16. CURRENT INVESTMENTS</b>  |                         |                         |
| Valued at lower of cost and market value  |                         |                         |
| <b>Investments in equity instruments</b>  |                         |                         |
| 93,365 (2011: 45,194) equity shares of ₹10 each, fully paid-up in Neuland Laboratories Limited  | 6,866,996               | 5,287,698               |
| 1,000 (2011: Nil) equity shares of ₹10 each, fully paid-up in Sun Pharmaceuticals Industries Limited  | 507,970                 | -                       |
| Nil (2011: 24,250) equity shares of ₹10 each, fully paid-up in JB Chemicals Limited   | -                       | 2,868,672               |
|   | <u>7,374,966</u>        | 8,156,370               |
| <b>Investment in partnership firm</b>   |                         |                         |
| 75% share in K & C Pharmacy [a partnership firm based in United States of America, wherein the Company and Mr. Krishnaya Bikkina shares profit/loss in the ratio of 75:25 respectively] | 165,678,749             | 165,678,749             |
| Less: Drawings from the firm  | (90,824,724)            | (88,079,151)            |
| Less: Share of loss from the firm   | (64,365,517)            | (64,365,517)            |
|   | <u>10,488,508</u>       | 13,234,081              |
| <b>Total current investments</b>  | <u>17,863,474</u>       | <u>21,390,451</u>       |
| <i>Aggregate amount of</i>  |                         |                         |
| <b>Quoted investments</b>   | 7,374,966               | 8,156,370               |
| Market value of quoted investments  | 7,436,946               | 8,495,973               |
| Unquoted investments  | 10,488,508              | 13,234,081              |
| Provision for diminution in value of investments  | <u>3,265,855</u>        | <u>500,358</u>          |
| <b>17. INVENTORIES</b>  |                         |                         |
| (valued at cost or lower of net realisable value)   |                         |                         |
| Raw materials [including goods-in-transit of ₹25,975,063 (2011: ₹12,057,185)]   | 328,601,728             | 254,447,364             |
| Work-in-progress  | 368,403,712             | 348,374,790             |
| Finished goods  | 86,729,795              | 115,616,979             |
| Stores and spares [including goods-in-transit of ₹7,432,065 (2011: ₹14,700,029)]  | 101,949,782             | 128,790,162             |
| Packing materials [including goods-in-transit of ₹307,012 (2011: ₹801,845)]   | 56,461,910              | 50,307,117              |
| Stock-in-trade [including goods-in-transit of ₹404,705 (2011: ₹2,622,470)]  | 30,687,483              | 32,664,145              |
|   | <u>972,834,410</u>      | <u>930,200,557</u>      |

**NOTES TO THE FINANCIAL STATEMENTS**

(All amounts in ₹, unless otherwise stated)

|  | As at<br>31 March, 2012 | As at<br>31 March, 2011 |
|--|-------------------------|-------------------------|
| <b>18. TRADE RECEIVABLES</b>   |                         |                         |
| Outstanding for a period exceeding six months from the date they are due for payment |                         |                         |
| Unsecured considered good  | 24,349,617              | 36,441,254              |
| Doubtful   | 10,334,519              | 10,334,519              |
|  | <u>34,684,136</u>       | <u>46,775,773</u>       |
| Less : Allowances for bad and doubtful debts   | 10,334,519              | 10,334,519              |
|  | <u>24,349,617</u>       | <u>36,441,254</u>       |
| Other debts  |                         |                         |
| Unsecured considered good  | 909,009,624             | 667,264,557             |
|  | <u>933,359,241</u>      | <u>703,705,811</u>      |

| 19. CASH AND BANK BALANCES                    | As at 31 March 2012 |                  | As at 31 March 2011 |                  |
|---|---------------------|------------------|---------------------|------------------|
|   | Current             | Non-current      | Current             | Non-current      |
| <b>Cash and cash equivalents</b>              |                     |                  |                     |                  |
| Cash on hand                                  | 11,397,939          | -                | 5,074,553           | -                |
| Balances with banks                           |                     |                  |                     |                  |
| - in current accounts                         | 55,775,796          | -                | 42,740,395          | -                |
| - in deposit accounts                         | 249,932,073         | -                | 255,172,721         | -                |
|   | <u>317,105,808</u>  | -                | <u>302,987,669</u>  | -                |
| <b>Other bank balances</b>                    |                     |                  |                     |                  |
| Unpaid dividend account                       | 6,031,940           | -                | 4,150,192           | -                |
| Bank deposits held with banks as margin money | 13,835,153          | 4,220,803        | 2,611,727           | 9,553,782        |
|   | <u>19,867,093</u>   | <u>4,220,803</u> | <u>6,761,919</u>    | <u>9,553,782</u> |
| <b>Total cash and bank balances</b>           | <u>336,972,901</u>  | <u>4,220,803</u> | <u>309,749,588</u>  | <u>9,553,782</u> |

|                                    | As at<br>31 March, 2012 | As at<br>31 March, 2011 |
|------------------------------------|-------------------------|-------------------------|
| <b>20. OTHER CURRENT ASSETS</b>    |                         |                         |
| Interest accrued on fixed deposits | 11,350,425              | 1,075,132               |
|                                    | <u>11,350,425</u>       | <u>1,075,132</u>        |



## NOTES TO THE FINANCIAL STATEMENTS

(All amounts in ₹, unless otherwise stated)

|  | For the year ended<br>31 March, 2012 | For the year ended<br>31 March, 2011 |
|--|--------------------------------------|--------------------------------------|
| <b>21. REVENUE</b>   |                                      |                                      |
| <b>Revenue from operations</b>   |                                      |                                      |
| Sale of products   | 4,218,154,039                        | 3,314,575,656                        |
| Sale of services   | 38,483,783                           | 75,405,617                           |
| Other operating revenues   |                                      |                                      |
| Job work charges   | 89,549,686                           | 109,777,459                          |
| Export incentives  | 30,907,494                           | 27,384,341                           |
| Scrap sales  | 12,032,502                           | 10,343,970                           |
|  | <u>132,489,682</u>                   | <u>147,505,770</u>                   |
| <b>Revenue from operations (Gross)</b>   | <b>4,389,127,504</b>                 | <b>3,537,487,043</b>                 |
| <b>Details of products sold</b>  |                                      |                                      |
| <b>Manufactured goods</b>  |                                      |                                      |
| Bulk drug and drug intermediaries  | 1,476,615,867                        | 1,059,883,793                        |
| Formulations   | 2,537,939,731                        | 2,055,176,263                        |
|  | <u>4,014,555,598</u>                 | <u>3,115,060,056</u>                 |
| <b>Traded goods</b>  |                                      |                                      |
| Formulations   | 203,598,441                          | 199,515,600                          |
|  | <u>203,598,441</u>                   | <u>199,515,600</u>                   |
|  | <u>4,218,154,039</u>                 | <u>3,314,575,656</u>                 |
| <b>22. OTHER INCOME</b>  |                                      |                                      |
| Interest income from   |                                      |                                      |
| Loans and advances   | 5,866,283                            | 8,043,338                            |
| Others   | 24,874,055                           | 2,188,849                            |
| Dividend income  | 220,720                              | -                                    |
| Net gain on sale of investments  | 747,897                              | -                                    |
| Net gain on foreign currency transaction and translation                               | 61,343,675                           | 20,186,901                           |
| Other non-operating income   | 38,864,016                           | 21,450,528                           |
|  | <u>131,916,646</u>                   | <u>51,869,616</u>                    |
| <b>23. COST OF RAW MATERIALS CONSUMED<br/>(including packing materials consumed) #</b> |                                      |                                      |
| Opening stock  | 304,754,481                          | 212,307,366                          |
| Add: Purchases during the year   | 1,257,032,427                        | 1,052,551,245                        |
| Less: Closing stock  | 385,063,638                          | 304,754,481                          |
|  | <u>1,176,723,270</u>                 | <u>960,104,130</u>                   |

# Disclosed based on derived figures, rather than actual records of issue.

Details of major raw materials consumed are given in note 32.

**NOTES TO THE FINANCIAL STATEMENTS**

(All amounts in ₹, unless otherwise stated)

|  | For the year ended<br>31 March, 2012 | For the year ended<br>31 March, 2011 |
|--|--------------------------------------|--------------------------------------|
| <b>24. Changes in inventories of finished goods, work-in-progress and stock-in-trade</b> |                                      |                                      |
| Opening stock  |                                      |                                      |
| - Finished goods   | 115,616,979                          | 78,398,904                           |
| - Work-in-progress   | 348,374,790                          | 265,955,090                          |
| - Stock-in-trade   | <u>32,664,145</u>                    | <u>34,686,483</u>                    |
|  | 496,655,914                          | 379,040,477                          |
| Closing stock  |                                      |                                      |
| - Finished goods   | 86,729,795                           | 115,616,979                          |
| - Work-in-progress   | 368,403,712                          | 348,374,790                          |
| - Stock-in-trade   | <u>30,687,483</u>                    | <u>32,664,145</u>                    |
|  | 485,820,990                          | 496,655,914                          |
|  | <u>10,834,924</u>                    | <u>(117,615,437)</u>                 |
| Following are the details of inventory balances under broad heads:                       |                                      |                                      |
| <b>Opening stock</b>   |                                      |                                      |
| <b>Finished goods</b>  |                                      |                                      |
| Bulk drug and drug intermediaries  | 39,397,538                           | 28,780,220                           |
| Formulations   | <u>76,219,441</u>                    | <u>49,618,684</u>                    |
|  | 115,616,979                          | 78,398,904                           |
| <b>Work in progress</b>  |                                      |                                      |
| Bulk drug and drug intermediaries  | 335,251,427                          | 244,687,183                          |
| Formulations   | <u>13,123,363</u>                    | <u>21,267,907</u>                    |
|  | 348,374,790                          | 265,955,090                          |
| <b>Traded goods</b>  |                                      |                                      |
| Formulations   | <u>32,664,145</u>                    | <u>34,686,483</u>                    |
|  | 32,664,145                           | 34,686,483                           |
| <b>Closing inventory</b>   |                                      |                                      |
| <b>Finished goods</b>  |                                      |                                      |
| Bulk drug and drug intermediaries  | 42,357,147                           | 39,397,538                           |
| Formulations   | <u>44,372,648</u>                    | <u>76,219,441</u>                    |
|  | 86,729,795                           | 115,616,979                          |
| <b>Work in progress</b>  |                                      |                                      |
| Bulk drug and drug intermediaries  | 340,426,425                          | 335,251,427                          |
| Formulations   | <u>27,977,287</u>                    | <u>13,123,363</u>                    |
|  | 368,403,712                          | 348,374,790                          |
| <b>Traded goods</b>  |                                      |                                      |
| Formulations   | <u>30,687,483</u>                    | <u>32,664,145</u>                    |
|  | 30,687,483                           | 32,664,145                           |
| <b>25. EMPLOYEE BENEFIT EXPENSE</b>  |                                      |                                      |
| Salaries and wages   | 546,219,745                          | 453,462,852                          |
| Contribution to provident and other funds  | 61,554,255                           | 38,293,212                           |
| Staff welfare expenses   | <u>63,567,782</u>                    | <u>42,630,780</u>                    |
|  | <u>671,341,782</u>                   | <u>534,386,844</u>                   |



## NOTES TO THE FINANCIAL STATEMENTS

(All amounts in ₹, unless otherwise stated)

|   | For the year ended<br>31 March, 2012 | For the year ended<br>31 March, 2011 |
|---|--------------------------------------|--------------------------------------|
| <b>26. FINANCE COSTS</b>  |                                      |                                      |
| Interest expenses   | 211,032,299                          | 124,890,998                          |
| Bank charges  | 18,563,065                           | 17,087,625                           |
|   | <u>229,595,364</u>                   | <u>141,978,623</u>                   |
| Interest expenses is after capitalization of ₹8,345,716 to tangible assets and ₹74,313,778 to capital work in progress (2011: ₹3,431,373 and ₹18,281,826 respectively). |                                      |                                      |
| <b>27. Other expenses</b>   |                                      |                                      |
| Consumption of stores and spare parts   | 77,994,576                           | 66,218,865                           |
| Power and fuel  | 263,201,936                          | 211,855,538                          |
| Rent  | 7,212,738                            | 6,356,142                            |
| Repairs and maintenance   |                                      |                                      |
| - Buildings   | 33,649,113                           | 20,291,854                           |
| - Plant and equipment   | 84,107,172                           | 63,883,922                           |
| - Others  | 28,298,057                           | 25,408,956                           |
| Insurance   | 21,556,976                           | 16,285,642                           |
| Rates and taxes   | 58,064,943                           | 27,353,901                           |
| Factory maintenance expenses  | 79,177,007                           | 66,836,104                           |
| Analysis charges  | 44,927,149                           | 47,219,495                           |
| Carriage and freight outwards   | 39,450,481                           | 38,594,314                           |
| Advertisements  | 3,451,110                            | 4,110,670                            |
| Donations   | 24,677,501                           | 18,516,594                           |
| Communication expenses  | 15,638,101                           | 14,041,609                           |
| Office maintenance and other expenses   | 25,839,424                           | 20,588,295                           |
| Travelling and conveyance   | 50,644,203                           | 45,560,791                           |
| Legal and professional fees   | 64,030,655                           | 64,583,790                           |
| Payments to auditors [refer note 41]  | 1,954,236                            | 1,078,500                            |
| Adjustments to the carrying amount of current investments   | 3,265,855                            | 500,358                              |
| Inventory written-off   | 3,751,630                            | 2,260,108                            |
| Provision for contingencies   | -                                    | 31,875,000                           |
| Loss on sale of asset   | -                                    | 900,377                              |
| Share of loss in partnership firm   | -                                    | 43,175,422                           |
| Provision for doubtful debts  | -                                    | 5,264,325                            |
| Bad debts   | 5,754,833                            | -                                    |
| Directors sitting fee   | 180,000                              | 170,000                              |
| Sales promotion expenses including sales commission   | 169,583,082                          | 80,893,583                           |
| Research and development expenses   | 84,270,985                           | 110,461,866                          |
| Printing and stationery   | 18,368,924                           | 13,884,019                           |
| Miscellaneous expenses  | 19,862,308                           | 17,725,128                           |
|   | <u>1,228,912,995</u>                 | <u>1,065,895,168</u>                 |



**NOTES TO THE FINANCIAL STATEMENTS**

(All amounts in ₹, unless otherwise stated)

**28. RELATED PARTIES**

| <b>Names of related parties</b>  | <b>Nature of relationship</b>  |
|--|--|
| NATCO Pharma Inc., United States of America  | Subsidiary company   |
| Timecap Overseas Limied, Mauritius (from 8 Nov 2010)                                 | Subsidiary company   |
| NATCO Farma Do Brazil Ltda EPP<br>(formerly Uniao distributors from 27 January 2011) | Stepdown subsidiary company  |
| K & C Pharmacy, United States of America   | Partnership firm in which the Company is a partner   |
| NATCO Organics Limited   | Companies/entities in which Directors having significant influence or able to exercise control |
| Time Cap Pharma Labs Limited   |  |
| NATCO Trust, Hyderabad   |  |
| NATCO Group Employees Welfare Trust  |  |
| Natsoft Information Systems Private Limited  |  |
| NDL Infratech Private Limited  |  |
| V C Nannapaneni, Chairman & Managing Director  | Key management personnel   |
| Rajeev Nannapaneni, Director and COO   | Key management personnel   |
| Dr. P Bhaskara Narayana, Director & Chief Financial Officer                          | Key management personnel   |
| Dr. A K S Bhujanga Rao, Director   | Key management personnel   |
| Dr. N. Ramakrishna Rao   | Relative of key management personnel   |
| Durga Devi Nannapaneni   | Relative of key management personnel   |

| <b>Transactions with related parties</b>  | <b>For the year ended<br/>31 March, 2012</b> | <b>For the year ended<br/>31 March, 2011</b> |
|---|--|--|
| <b>Transactions with subsidiary company</b>                                     |  |  |
| <b><i>NATCO Pharma Inc.</i></b>   |  |  |
| Interest on loans and advances  | <b>5,866,283</b>                             | 8,043,338                                    |
| <b><i>Time Cap Overseas Limited, Mauritius</i></b>                              |  |  |
| Share capital and share application money                                       | <b>51,070,785</b>                            | 30,770,188                                   |
| Advance for expenses  | <b>6,208,570</b>                             | -  |
| <b>Transactions with the partnership firm in which the Company is a partner</b> |  |  |
| <b><i>K &amp; C Pharmacy</i></b>  |  |  |
| Drawings from the partnership firm  | <b>2,745,573</b>                             | 88,079,151                                   |
| Share of loss from the partnership firm   | -  | 43,175,422                                   |
| <b>Transactions with entities in which directors are interested</b>             |  |  |
| <b><i>NATCO Organics Limited</i></b>  |  |  |
| Advance towards future supplies   | <b>159,343,231</b>                           | 306,077,225                                  |
| Rental expense  | <b>1,140,000</b>                             | 1,140,000                                    |
| Purchases   | <b>41,250,559</b>                            | -  |
| Sales   | <b>3,021,097</b>                             | -  |

(Contd.)



## NOTES TO THE FINANCIAL STATEMENTS

(All amounts in ₹, unless otherwise stated)

| Transactions with related parties                                | For the year ended<br>31 March, 2012 | For the year ended<br>31 March, 2011 |
|--|--------------------------------------|--------------------------------------|
| <b><i>Time Cap Pharma Labs Limited</i></b>                       |                                      |                                      |
| Income from Job work charges and sales                           | 1,965,240                            | 6,220,841                            |
| Income from rent   | 120,000                              | 120,000                              |
| Commission and expenses reimbursement                            | 4,885,751                            | 5,341,493                            |
| Purchases  | 1,681,961                            | 2,678,000                            |
| Rental expense   | 1,620,000                            | 1,620,000                            |
| Advances given   | 19,021,759                           | 55,234,580                           |
| Dividends paid   | 10,209,582                           | 6,796,358                            |
| <b>Natsoft Information Systems Private Limited</b>               |                                      |                                      |
| Dividends paid   | 9,460,500                            | 6,307,000                            |
| <b>NDL Infratech Private Limited</b>                             |                                      |                                      |
| Interest on loans granted  | 853,694                              | -                                    |
| Loans given  | -                                    | 3,118,186                            |
| <b>NATCO Trust</b>   |                                      |                                      |
| Donations given  | 22,500,000                           | 9,800,000                            |
| <b>NATCO Group Employees Welfare Trust</b>                       |                                      |                                      |
| Donations for the welfare of employees                           | 17,211,557                           | 4,600,000                            |
| Dividends paid   | 252,000                              | -                                    |
| <b>Transactions with key management personnel</b>                |                                      |                                      |
| <b>V C Nannapaneni</b>   |                                      |                                      |
| Managerial remuneration  | 10,608,000                           | 10,608,000                           |
| Rental expenses  | 1,440,000                            | 1,440,000                            |
| Dividends paid   | 24,071,514                           | 15,993,918                           |
| Personnel guarantees against loans taken by the Company          | 1,110,814,800                        | 1,605,000,000                        |
| <b>Rajeev Nannapaneni</b>  |                                      |                                      |
| Managerial remuneration  | 8,400,000                            | 5,376,000                            |
| Rental expenses  | 720,000                              | 720,000                              |
| Dividends paid   | 2,719,830                            | 1,813,220                            |
| <b>Dr. P Bhaskara Narayana</b>                                   |                                      |                                      |
| Managerial remuneration  | 3,200,000                            | 2,330,549                            |
| Dividends paid   | 22,500                               | 15,000                               |
| <b>Dr. A K S Bhujanga Rao</b>                                    |                                      |                                      |
| Managerial remuneration  | 3,119,599                            | 2,627,012                            |
| Dividends paid   | 21,000                               | 14,000                               |
| <b>Transactions with a relatives of key management personnel</b> |                                      |                                      |
| <b>Durga Devi Nannapaneni</b>                                    |                                      |                                      |
| Dividends paid   | 2,483,460                            | 1,655,640                            |
| Personnel guarantees against loans taken by the Company          | 145,000,000                          | -                                    |
| <b>Dr. N Ramakrishna Rao</b>                                     |                                      |                                      |
| Dividends paid   | 425,946                              | 278,964                              |
| Personnel guarantees against loans taken by the Company          | 145,000,000                          | -                                    |

**NOTES TO THE FINANCIAL STATEMENTS**

(All amounts in ₹, unless otherwise stated)

| <b>Balances with related parties</b>        | <b>As at<br/>31 March, 2012</b> | <b>As at<br/>31 March, 2011</b> |
|---|---------------------------------|---------------------------------|
| <b>Balance (due to) / due from</b>          |                                 |                                 |
| NATCO Pharma Inc.                           | 96,125,297                      | 109,686,221                     |
| Time Cap Overseas Limited                   | 6,208,570                       | -                               |
| NATCO Organics Limited                      | 425,478,283                     | 306,077,225                     |
| Time Cap Pharma Labs Limited                | 2,001,778                       | (2,092,838)                     |
| Natsoft Information Systems Private Limited | 16,667                          | 16,667                          |
| NATCO Group Employees Welfare Trust         | 10,000                          | 10,000                          |
| NDL Infratech Private Limited               | -                               | 7,066,105                       |
| NATCO Trust                                 | 61,991                          | 62,390                          |
| V C Nannapaneni                             | (483,008)                       | (1,686,151)                     |
| Rajeev Nannapaneni                          | (329,630)                       | (913,403)                       |
| Dr. P Bhaskara Narayana                     | (179,984)                       | (165,511)                       |
| Dr. A K S Bhujanga Rao                      | (489,858)                       | (120,308)                       |
| Outstanding guarantees                      |                                 |                                 |
| V C Nannapaneni, Chairman                   | 3,624,842,671                   | 2,931,496,853                   |
| Dr. N Ramakrishna Rao                       | 1,101,000,000                   | 956,000,000                     |
| Durga Devi Nannapaneni                      | 1,101,000,000                   | 956,000,000                     |

**Disclosure pursuant to Clause 32 of Listing Agreement**

Loans and Advances in the nature of loans to subsidiaries and to companies in which directors are interested

| <b>Name of the Company</b>  | <b>31 March 2012</b> | <b>31 March 2011</b> |
|---|----------------------|----------------------|
| <b><i>Outstanding balance</i></b>                                     |                      |                      |
| NATCO Pharma Inc.   | 96,125,297           | 109,686,221          |
| Natsoft Information Systems Private Limited                           | 16,667               | 16,667               |
| NDL Infratech Private Limited   | -                    | 7,066,105            |
| <b><i>Maximum balance outstanding at any time during the year</i></b> |                      |                      |
| NATCO Pharma Inc.   | 109,686,221          | 153,209,854          |
| Natsoft Information Systems Private Limited                           | 16,667               | 16,667               |
| NDL Infratech Private Limited   | 7,066,105            | 7,066,105            |

**29. Segment reporting**

In accordance with AS 17 - Segment Reporting, segment information has been given in the consolidated financial statements of NATCO Pharma Limited and therefore no separate disclosure on segment information is given in these financial statements.



## NOTES TO THE FINANCIAL STATEMENTS

(All amounts in ₹, unless otherwise stated)

|  | As at<br>31 March, 2012 | As at<br>31 March, 2011 |
|--|-------------------------|-------------------------|
| <b>30. Contingent liabilities and commitments</b>  |                         |                         |
| <b>a. Commitments</b>  |                         |                         |
| Estimated amount of contracts remaining to be executed on capital account and not provided for (net of advances) | <b>67,213,981</b>       | 380,896,183             |
| <b>b. Contingent liabilities</b>   |                         |                         |
| Claims against the company not acknowledged as debt  | <b>320,068,008</b>      | 156,290,615             |
| Disputed sales tax liabilities   | <b>8,690,000</b>        | 8,690,000               |
| Disputed income tax liabilities  | <b>169,259,702</b>      | 162,335,436             |

Claims against the Company not acknowledged as debt, represents claim including interest lodged by M/s. SMS Pharmaceuticals Limited, against the Company. During the current year, the Hon'ble City Civil Court, Hyderabad has passed the judgement against the Company. Based on a legal advice received, management is of the opinion that the Hon'ble City Civil Court has not taken due cognizance of certain material facts and is confident of favorable outcome of the proposed appeal before the Hon'ble High Court of Andhra Pradesh.

Disputed tax liabilities primarily represents additional tax demanded by the Tax Authorities, challenging the Company's basis of computing profits of units covered by the provisions of Section 80IC of the Income Tax Act, 1961. Pending final outcome of such matters and in view of the order for Assessment Year 2007-08 being set aside by appellate authorities, management is confident of favorable outcome of the proceedings.

### 31. Terms and conditions of loans and nature of security

#### Secured term loans:

- 1) Exim Bank term loans, (a) outstanding ₹328,647,059 (2011: ₹410,000,000) is repayable in 17 equal quarterly installments (b) outstanding ₹475,000,000 (2011: ₹500,000,000) is repayable in 20 equal quarterly installments (c) outstanding ₹Nil, (2011: ₹15,000,000). All the above loans are secured by pari-passu first charge on the entire immovable properties and movable fixed assets both present and future of Mekaguda Unit along with Citibank and Barclays Bank for part of the loan and loans (a) and (b) are further secured by an exclusive charge on all the immovable properties and movable fixed assets of both the units (Plot No-19 and Plot NoA-3) at Dehradun.
- 2) Axis Bank term loans (a) outstanding ₹254,000,000 (2011: ₹350,000,000), is repayable in 16 equal quarterly installments (b) outstanding ₹150,000,000 (2011: ₹Nil) is repayable in 48 equal monthly installments. Both the loans are secured by first charge on the entire fixed assets both present and future of Kothur Unit on pari-passu basis with SBI.
- 3) Citibank term loan, outstanding ₹137,500,000 (2011: ₹187,500,000) is repayable in 16 equal quarterly installments and is secured by a pari-passu first charge on the entire immovable properties and movable fixed assets both present and future of Mekaguda Unit along with Exim Bank and Barclays Bank for part of the loan.

**NOTES TO THE FINANCIAL STATEMENTS**

- 4) State Bank of India (SBI), outstanding ₹11,880,812 (2011: ₹11,996,853) is repayable in 16 equal quarterly installments and is secured by a first charge on the entire fixed assets both present and future of Kothur Unit on pari-passu basis with Axis Bank.
- 5) Barclays Bank, External Commercial Borrowing outstanding of ₹410,814,800 (2011: ₹Nil) is repayable in 16 equal quarterly installments and a part of the loan is secured by an exclusive charge over all movable and immovable fixed assets of NATCO Research Center and a part of the loan is secured by first charge on the movable and immovable fixed assets of Mekaguda unit along with Exim Bank and Citibank.
- 6) All the above loans are guaranteed by Mr. V.C Nannapaneni, Chairman and Managing Director and have been granted with a moratorium of 12 months and carry interest linked to the respective Bank's / Institution's prime / base lending rate, and range from 3.53% per annum to 14% per annum.

**Secured working capital:**

The working capital Loans are re-payable on demand. The primary security is joint pari-passu first charge on all current assets of the Company. The collateral security is joint pari-passu first charge on the corporate Office and all fixed assets of Nagarjuna Sagar Unit apart from personal guarantees of Mr. V.C. Nannapaneni, Chairman and Managing Director and (a) Ms. Durga Devi Nannapaneni, promoter and (b) Dr. N. Ramakrishna Rao, relative of Chairman and Managing Director, in case of working capital limits availed from SBI, Corporation Bank, Oriental Bank of Commerce and Allahabad Bank

**Unsecured Loans:**

Unsecured loans are re-payable on demand and are personally guaranteed by Mr. V.C. Nannapaneni, Chairman and Managing Director.

## NOTES TO THE FINANCIAL STATEMENTS

(All amounts in ₹, unless otherwise stated)

### 32. DETAILS OF RAW MATERIALS CONSUMED (including packing materials consumed)

Following are the major raw materials consumed.

| Material Description             | For the year ended 31 March 2012 |                      |                    | For the year ended 31 March 2011 |                    |                    |
|----------------------------------|----------------------------------|----------------------|--------------------|----------------------------------|--------------------|--------------------|
|                                  | Opening stock                    | Consumption          | Closing stock      | Opening stock                    | Consumption        | Closing stock      |
| Stannous chloride                | 6,959,759                        | 64,904,913           | 8,420,037          | 120,680                          | 38,739,245         | 6,959,759          |
| 2-Chloro Methyl-3-Methyl-4       | 3,203,315                        | 24,543,315           | 266,750            | 73,897                           | 25,823,286         | 3,203,315          |
| Racemic sertraline hydrochloride | 246,264                          | 78,687,425           | 19,190,130         | 3,489,755                        | 75,117,242         | 246,264            |
| 5 Bromo Phthalide                | 3,706,165                        | 13,220,304           | 3,477,503          | 9,166,349                        | 20,792,393         | 3,706,165          |
| 1-Bromo-3-Chloro Propane         | 2,151,304                        | 18,041,980           | 1,912,363          | 3,217,238                        | 14,957,480         | 2,151,304          |
| Chloroform                       | 2,262,168                        | 42,687,228           | 1,620,641          | 1,219,312                        | 30,255,118         | 2,262,168          |
| Ethyl Acetate                    | 981,057                          | 28,062,336           | 1,316,666          | 1,012                            | 18,072,036         | 981,057            |
| Isopropyl Alcohol                | 5,269,425                        | 58,802,510           | 2,494,338          | 1,367,658                        | 62,424,216         | 5,269,425          |
| Iso Propyl Ether                 | 3,176,941                        | 27,143,105           | 3,198,159          | 1,338,117                        | 16,521,149         | 3,176,941          |
| Methanol                         | 1,551,193                        | 41,037,085           | 2,913,560          | 1,176,711                        | 35,823,845         | 1,551,193          |
| Methylene Chloride               | 3,534,989                        | 36,621,933           | 1,286,801          | 2,012,479                        | 24,140,656         | 3,534,989          |
| Tetra Hydro Furan                | 2,452,604                        | 19,507,887           | 4,267,062          | 2,214,790                        | 31,942,278         | 2,452,604          |
| Toluene                          | 944,639                          | 23,333,410           | 2,015,616          | 2,198,205                        | 19,384,031         | 944,639            |
| Phosphorous Pentoxide            | 800,289                          | 26,378,183           | 2,705,891          | 1,110,499                        | 18,603,182         | 800,289            |
| Others **                        | 267,514,368                      | 673,751,657          | 329,978,120        | 183,600,663                      | 527,507,973        | 267,514,368        |
| <b>Total</b>                     | <b>304,754,481</b>               | <b>1,176,723,270</b> | <b>385,063,638</b> | <b>212,307,366</b>               | <b>960,104,130</b> | <b>304,754,481</b> |

\*\*Others include no item which in value individually accounts for 10% or more of the total value of raw materials consumed.

**NOTES TO THE FINANCIAL STATEMENTS**

(All amounts in ₹, unless otherwise stated)

**33. DUES TO MICRO AND SMALL ENTERPRISES**

The Micro and Small Enterprises have been identified on the basis of information available with the Company. This has been relied upon by the auditors. Details of dues to such parties are given below:

| Particulars   | 31 March 2012 | 31 March 2011 |
|---|---------------|---------------|
| (a) The principal amount remaining unpaid as at the end of the year   | 31,007,455    | 29,724,329    |
| (b) The amount of interest accrued and remaining unpaid at the end of the year  | 1,589,382     | -             |
| (c) Amount of interest paid by the company in terms of Section 16, of (MSMED Act 2006) along with the amounts of payments made beyond the appointed date during the year.   | -             | -             |
| (d) Amount of interest due and payable for the period of delay in making payment without the interest specified under the (MSMED Act 2006)  | -             | -             |
| (e) The amount of further interest remaining due and payable in the succeeding years, until such date when the interest dues as above are actually paid to the small enterprises for the purpose of disallowance as a deductible expenditure under Section 23 of the (MSMED Act 2006) | -             | -             |

|  | As at<br>31 March, 2012 | As at<br>31 March, 2011 |
|--|-------------------------|-------------------------|
| <b>34. UNHEDGED FOREIGN CURRENCY EXPOSURE</b>                              |                         |                         |
| Particulars of unhedged foreign currency exposure as at the reporting date |                         |                         |
| Long-term borrowings (including current maturities)                        | 410,814,800             | -                       |
| Trade payables   | 30,217,284              | 16,947,305              |
| Interest accrued but not due on borrowings                                 | 915,996                 | -                       |
| Non-current investments  | 123,690,247             | 72,619,462              |
| Long term loans and advances   | 96,125,297              | 109,686,221             |
| Current investments  | 10,488,508              | 13,234,081              |
| Trade receivables*   | 49,263,137              | 29,603,654              |

\* Net of discounted bills of ₹467,326,395 (2011: ₹281,340,458)

|  | For the year ended<br>31 March, 2012 | For the year ended<br>31 March, 2011 |
|--|--------------------------------------|--------------------------------------|
| <b>35. EARNINGS IN FOREIGN CURRENCY ON ACCRUAL BASIS</b> |                                      |                                      |
| Export on FOB basis                                      | 1,790,196,561                        | 1,300,936,954                        |
| Sale of services   | 33,718,000                           | 71,258,750                           |
| Income from royalty                                      | 36,765,277                           | 18,940,113                           |
| Interest on loans to a subsidiary company                | 5,866,283                            | 8,043,338                            |



## NOTES TO THE FINANCIAL STATEMENTS

(All amounts in ₹, unless otherwise stated)

|   | For the year ended<br>31 March, 2012 | For the year ended<br>31 March, 2011 |
|---|--------------------------------------|--------------------------------------|
| <b>36. EXPENDITURE IN FOREIGN CURRENCY ON ACCRUAL BASIS</b> |                                      |                                      |
| Travelling expenses   | 11,664,994                           | 5,038,633                            |
| Commission  | 20,918,640                           | 3,040,115                            |
| Professional and consultation fees                          | 12,755,215                           | 37,915,380                           |
| Interest on borrowings                                      | 12,271,421                           | -                                    |
| Others  | 65,885,210                           | 75,608,651                           |
| <b>37. Value of imports on CIF basis</b>                    |                                      |                                      |
| Raw materials and packing materials                         | 167,475,025                          | 169,596,725                          |
| Capital goods (including spares and components)             | 220,712,305                          | 153,509,707                          |
| <b>38. DIVIDEND REMITTED IN FOREIGN CURRENCY</b>            |                                      |                                      |
| Number of non - resident shareholders                       | 17                                   | 16                                   |
| Number of equity shares held on which dividend was due      | 545,488                              | 544,988                              |
| Amount remitted (\$)  | 32,933                               | 23,955                               |
| Amount remitted (₹)   | 1,636,464                            | 1,089,976                            |
| Period to which is relates                                  | 2011-12                              | 2010-11                              |

### 39. Amounts incurred on research and development expenses

Details of capital and revenue expenditure for Department of Scientific and Industrial Research approved research and development facilities/divisions of the Company for the period of immediately preceeding 3 years is as follows:

|   | For the year ended<br>31 March, 2012 | For the year ended<br>31 March, 2011 | For the year ended<br>31 March, 2010 |
|---|--------------------------------------|--------------------------------------|--------------------------------------|
| Salaries and wages                      | 99,274,370                           | 81,603,594                           | 65,103,957                           |
| Consumption of materials, spares        | 57,498,580                           | 35,265,476                           | 31,600,565                           |
| Utilities                               | 8,115,125                            | 7,594,710                            | 6,210,350                            |
| Other research and development expenses | 58,887,660                           | 53,091,953                           | 43,219,075                           |
| Capital equipments                      | 4,790,731                            | 76,192,285                           | 23,475,247                           |
|   | <b>228,566,466</b>                   | <b>253,748,018</b>                   | <b>169,609,194</b>                   |



**NOTES TO THE FINANCIAL STATEMENTS**

(All amounts in ₹, unless otherwise stated)

|  | For the year ended<br>31 March, 2012 | For the year ended<br>31 March, 2011 |
|--|--------------------------------------|--------------------------------------|
| <b>40. IMPORTED AND INDIGENOUS CONSUMPTION</b>     |                                      |                                      |
| <b>Raw materials (including packing materials)</b> |                                      |                                      |
| Imported   |                                      |                                      |
| Amount   | 156,434,450                          | 162,454,806                          |
| Percentage   | 13.29%                               | 16.92%                               |
| Indigeneous  |                                      |                                      |
| Amount   | 1,020,288,820                        | 797,649,324                          |
| Percentage   | 86.71%                               | 83.08%                               |
| <b>Total</b>                                       |                                      |                                      |
| <b>Amount</b>                                      | <b>1,176,723,270</b>                 | <b>960,104,130</b>                   |
| <b>Percentage</b>                                  | <b>100%</b>                          | <b>100%</b>                          |
| <b>Stores and spares</b>                           |                                      |                                      |
| Imported   |                                      |                                      |
| Amount   | 5,926,703                            | 2,807,050                            |
| Percentage   | 7.60%                                | 4.24%                                |
| Indigeneous  |                                      |                                      |
| Amount   | 72,067,873                           | 63,411,815                           |
| Percentage   | 92.40%                               | 95.76%                               |
| <b>Total</b>                                       |                                      |                                      |
| Amount   | 77,994,576                           | 66,218,865                           |
| Percentage   | 100%                                 | 100%                                 |
| <b>41. Payments to auditors</b>                    |                                      |                                      |
| As auditor   | 1,050,000                            | 1,050,000                            |
| For other services                                 | 900,000                              | 25,000                               |
| Reimbursement of expenses                          | 4,236                                | 3,500                                |
|  | <b>1,954,236</b>                     | <b>1,078,500</b>                     |

**42. Comparatives**

Previous year comparatives have been reclassified and regrouped wherever necessary, to confirm to current years presentation.

For and on behalf of Board of Directors of  
**NATCO Pharma Limited**

**V.C. Nannapaneni**  
**Rajeev Nannapaneni**

Chairman & Managing Director  
Director & Chief Operating Officer

**Dr. P. Bhaskara Narayana**  
**M. Adinarayana**

Director & Chief Financial Officer  
Company Secretary & G M (Corp. Affairs)

Place : Hyderabad  
Date : 28 May, 2012



## CASH FLOW STATEMENT FOR THE YEAR ENDED 31 MARCH 2012

(All amounts in ₹, unless otherwise stated)

|  | For the year ended<br>31 March, 2012 | For the year ended<br>31 March, 2011 |
|--|--------------------------------------|--------------------------------------|
| <b>Cash flows from operating activities</b>                  |                                      |                                      |
| Profit before tax  | 825,129,473                          | 639,843,296                          |
| <b>Adjustments for non-cash transactions</b>                 |                                      |                                      |
| Depreciation and amortisation expense                        | 154,051,694                          | 143,480,449                          |
| Share in loss of partnership firm                            | -                                    | 43,175,422                           |
| Loss/(profit) on sale of investments                         | (747,897)                            | 18,674                               |
| Diminution in the value of investments                       | 3,265,855                            | 500,358                              |
| Loss on sale of fixed assets (net)                           | -                                    | 900,377                              |
| Inventory written-off  | 3,751,630                            | 2,260,108                            |
| Allowances for (net of write offs)                           |                                      |                                      |
| - contingencies  | -                                    | 31,875,000                           |
| - bad and doubtful trade receivables                         | -                                    | 5,264,325                            |
| Bad and doubtful trade receivables written off               | 5,754,833                            | 77,927                               |
| Provision for employee benefits                              | 12,235,610                           | (17,630)                             |
| Unrealised foreign exchange loss/(gain), net                 | (636,322)                            | 1,197,962                            |
|  | <b>1,002,804,876</b>                 | <b>868,576,268</b>                   |
| <b>Items considered separately</b>                           |                                      |                                      |
| Interest income  | (30,740,338)                         | (10,232,187)                         |
| Dividend income  | (220,720)                            | -                                    |
| Interest expenses  | 211,032,299                          | 124,890,998                          |
| <b>Operating profit before working capital changes</b>       | <b>1,182,876,117</b>                 | <b>983,235,079</b>                   |
| Increase/(decrease) in other current liabilities             | 115,353,998                          | (25,174,917)                         |
| Increase in trade payables                                   | 108,034,424                          | 151,871,290                          |
| Increase in long term liabilities and provisions             | 1,050,000                            | 32,565,864                           |
| Increase in inventories                                      | (46,385,483)                         | (276,245,348)                        |
| Increase in trade receivables                                | (234,048,913)                        | (165,758,578)                        |
| (Increase)/decrease in short term loans and advances         | (233,209,562)                        | 107,105,019                          |
| (Increase)/decrease in long term loans and advances          | 11,887,696                           | (307,033,300)                        |
| <b>Cash generated from operating activities</b>              | <b>905,558,277</b>                   | <b>500,565,109</b>                   |
| Income taxes paid  | (225,438,719)                        | (177,652,361)                        |
| <b>Net cash generated from operating activities</b> <b>A</b> | <b>680,119,558</b>                   | <b>322,912,748</b>                   |
| <b>Cash flows from investing activities</b>                  |                                      |                                      |
| Purchase of tangible assets                                  | (1,282,903,967)                      | (915,803,340)                        |
| Proceeds from sale of tangible assets                        | -                                    | 2,248,001                            |
| Purchase of intangible assets                                | (4,694,078)                          | (9,517,378)                          |
| Investment in subsidiary company                             | (51,070,785)                         | (30,770,188)                         |
| Drawings from partnership firm                               | 2,745,573                            | 88,079,151                           |
| Purchase of current investments                              | (5,353,123)                          | (23,656,728)                         |
| Proceeds from sale of current investments                    | 3,616,569                            | 3,052,765                            |
| Interest received  | 22,139,715                           | 1,923,133                            |
| Loans and advances recovered from subsidiary company         | 34,333,500                           | 50,546,570                           |
| Receipt of capital subsidy                                   | 3,000,000                            | 200,000                              |
| Increase in other bank balances                              | (7,772,195)                          | (376,429)                            |
| Dividends received   | 220,720                              | -                                    |
| <b>Net cash used in investing activities</b> <b>B</b>        | <b>(1,285,738,071)</b>               | <b>(834,074,443)</b>                 |

**CASH FLOW STATEMENT (Contd.)**

(All amounts in ₹, unless otherwise stated)

|  | For the year ended<br>31 March, 2012 | For the year ended<br>31 March, 2011 |
|--|--------------------------------------|--------------------------------------|
| <b>Cash flows from financing activities</b>                              |                                      |                                      |
| Proceeds from issue of share capital                                     | 675,000,000                          | -                                    |
| Proceeds from long term borrowings                                       | 508,740,250                          | 1,260,000,000                        |
| Repayment of long term borrowings  | (269,395,591)                        | (426,960,647)                        |
| Proceeds from short term borrowings, net                                 | 96,196,971                           | 172,815,420                          |
| Interest paid  | (284,083,941)                        | (145,629,066)                        |
| Dividends paid (including tax on distributed profits)                    | (106,721,038)                        | (65,219,360)                         |
| <b>Net cash generated from financing activities</b> C                    | <u>619,736,651</u>                   | <u>795,006,347</u>                   |
| <b>Net increase in cash and cash equivalents (A+B+C)</b>                 | <u>14,118,138</u>                    | <u>283,844,652</u>                   |
| Cash and cash equivalents as at the beginning of the year                | <u>302,987,670</u>                   | <u>19,143,018</u>                    |
| Cash and cash equivalents as at the end of the year [Refer Note 1]       | <u><u>317,105,808</u></u>            | <u><u>302,987,670</u></u>            |
| <b>Note 1:</b>   |                                      |                                      |
| Cash and bank balances as per Note 15, 19                                | 341,193,704                          | 319,303,370                          |
| Less: Other bank balances  | <u>24,087,896</u>                    | <u>16,315,700</u>                    |
| <b>Cash and cash equivalents considered for cash flow</b>                | <u>317,105,808</u>                   | <u>302,987,670</u>                   |
| <b>Notes 1 to 42 form an integral part of these financial statements</b> |                                      |                                      |

This is the cash flow statement referred to in our report of even date.

For and on behalf of Board of Directors of  
**NATCO Pharma Limited**

For **Walker, Chandio & Co.**  
Chartered Accountants  
per **Sanjay Kumar**  
Partner

**V.C. Nannapaneni**  
**Rajeev Nannapaneni**

Chairman & Managing Director  
Director & Chief Operating Officer

Place: Hyderabad  
Date : 28 May, 2012

**Dr. P. Bhaskara Narayana**  
**M. Adinarayana**

Director & Chief Financial Officer  
Company Secretary & G M (Corp. Affairs)



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**CONSOLIDATED FINANCIAL STATEMENTS  
2011-12**

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## Statement pursuant to Section 212 (8) of Companies Act, 1956 relating to subsidiary companies

The company has a wholly owned subsidiary-NATCO Pharma Inc-incorporated in the State of Delaware, USA and a step-down subsidiary-NATCO Farma Do Brasil- incorporated in Brazil.

In accordance with the terms of the directions issued by the Government of India vide its General circular No.2/2011 dated 8th February, 2011 the following information is being disclosed:

- The consolidated financial statements of the Company include the audited financial statements pertaining to the subsidiaries.
- The said financial statements have been prepared in strict compliance with the Accounting Standards and the Listing Agreement as prescribed by SEBI.
- While the reporting currency for the subsidiary is US Dollars, the relevant information pertaining to the subsidiary is given below, in terms of Indian Rupees based on the prevailing exchange rate (one US \$ =Indian ₹51.16, Average Exchange rate is being one US \$=47.95) and Brazil exchange rate is being (one Rupee =0.036 Brazilian Real average exchange rate is being one Rupee =0.0355 BRL) as on 31st March, 2012.

| Particulars (all figures in Indian Rupees) | NATCO Pharma INC. | NATCO Farma Do Brasil |
|--|-------------------|-----------------------|
| Capital                                    | 51,160,000        | 43,638,889            |
| Reserves                                   | 60,027,358        | (63,444,444)          |
| Total Assets                               | 275,715,258       | 58,916,667            |
| Total Liabilities                          | 164,527,900       | 15,277,777            |
| Details of Investments                     | Nil               | Nil                   |
| Turnover                                   | 841,794,904       | 38,591,549            |
| Profit before taxation                     | 14,755,558        | (47,267,605)          |
| Provision for taxation                     | 6,899,238         | Nil                   |
| Profit after taxation                      | 7,856,320         | Nil                   |
| Proposed Dividend                          | Nil               | Nil                   |

The annual accounts of the subsidiary companies and the related detailed information will be made available to the investors seeking such information at any point of time. The annual accounts of the subsidiary companies will also be available for inspection by any investor at the Registered Office of the Company and that of NATCO Pharma, Inc., on all working days during business hours and is also available on the company's [website www.natcopharma.co.in](http://www.natcopharma.co.in)



## AUDITORS' REPORT ON CONSOLIDATED FINANCIAL STATEMENTS

To the Board of Directors of NATCO Pharma Limited

1. We have audited the attached Consolidated Balance Sheet of NATCO Pharma Limited, its subsidiaries, (hereinafter collectively referred to as 'the Group'), as at 31 March 2012, and also the Consolidated Statement of Profit and Loss and the Consolidated Cash Flow Statement for the year ended on the date annexed thereto (collectively referred as the 'Consolidated Financial Statements'). These Consolidated Financial Statements are the responsibility of the Group's management and have been prepared by the Group's management on the basis of separate financial statements and other financial information regarding components. Our responsibility is to express an opinion on these Consolidated Financial Statements based on our audit.
2. We conducted our audit in accordance with the auditing standards generally accepted in India. Those Standards require that we plan and perform the audit to obtain reasonable assurance whether the Consolidated Financial Statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Consolidated Financial Statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.
3. We report that:
  - (a) The Consolidated Financial Statements have been prepared by the Group's management in accordance with the requirements of Accounting Standard 21 on 'Consolidated Financial Statements' notified pursuant to the Companies (Accounting Standards) Rules, 2006.
  - (b) We did not audit the financial statements of subsidiaries, whose financial statements reflect total assets (after eliminating intra-group transactions) of ₹335,951,040 as at 31 March 2012; total revenues (after eliminating intra-group transactions) of ₹882,627,214 and net cash out flows aggregating to ₹37,015,115 for the year then ended. These financial statements and other financial information have been audited by other auditors whose reports have been furnished to us by the management, and our opinion is based solely on the reports of the other auditors.
4. The Consolidated Financial Statements as at and for the year ended 31 March 2012 include management prepared unaudited financial statements of its subsidiaries K&C Pharmacy, USA and Timecap Overseas Limited, Mauritius. In the absence of audited financial statements of these entities, we are unable to express an opinion to the extent of total assets, total revenues and cash flows pertaining to these entities amounting to ₹47,355,832; ₹Nil and ₹5,383,349 respectively, included in the Consolidated Balance Sheet as at 31 March 2012, Consolidated Statement of Profit and Loss and Consolidated Cash Flow for the year ended 31 March 2012 respectively.
5. As discussed in note 2 to the accompanying consolidated financial statements, we report that the Company has not recognized Minimum Alternative Tax (MAT) credit entitlement in accordance with the Guidance Note on Accounting for Credit Available in Respect of Minimum Alternative Tax under the Income-tax Act, 1961. Consequently, the consolidated profit for the year ended 31 March 2012 is understated by ₹112,767,579 (2011: ₹131,527,145) and the balance in loans and advances and reserves and surplus as at 31 March 2012 is understated by ₹404,902,653 (2011: ₹292,135,074). This had caused us to qualify our audit opinion on the consolidated financial statements for the year ended and as at 31 March 2011.

6. Based on our audit and on consideration of reports of other auditors on the separate financial statements and other financial information of the subsidiaries, and to the best of our information and according to the explanations given to us and subject to our observation in paragraph 4 above the effect of which on these accounts is presently not ascertainable and impact of our observation in paragraph 5 above, in our opinion, the attached Consolidated Financial Statements give a true and fair view in conformity with the accounting principles generally accepted in India, in case of:

- (a) the Consolidated Balance Sheet, of the state of affairs of the Group as at 31 March 2012;
- (b) the Consolidated Statement of Profit and Loss, of the profit for the year ended on that date; and
- (c) the Consolidated Cash Flow Statement, of the cash flows for the year ended on that date.

For **Walker, Chandio & Co**  
Chartered Accountants  
Firm Registration No: 001076N

per **Sanjay Kumar**  
Partner  
Membership No. 207660

Place : Hyderabad  
Date : 28 May 2012



## CONSOLIDATED BALANCE SHEET AS AT 31 MARCH 2012

(All amounts in ₹, unless otherwise stated)

|   | Notes | As at<br>31 March, 2012     | As at<br>31 March, 2011     |
|---|-------|-----------------------------|-----------------------------|
| <b>I. EQUITY AND LIABILITIES</b>  |       |                             |                             |
| <b>Shareholders' funds</b>  |       |                             |                             |
| Share capital   | 3     | 311,479,520                 | 281,479,520                 |
| Reserves and surplus  | 4     | 4,400,518,951               | 3,242,851,152               |
|   |       | <u>4,711,998,471</u>        | <u>3,524,330,672</u>        |
| <b>Minority interest</b>  |       |                             |                             |
|   | 5     | 8,838,771                   | 10,589,929                  |
| <b>Non-current liabilities</b>  |       |                             |                             |
| Long-term borrowings  | 6     | 1,340,986,565               | 1,254,339,695               |
| Deferred tax liabilities (net)  | 7     | 288,939,908                 | 250,869,295                 |
| Other long term liabilities   | 8     | 13,536,275                  | 12,486,275                  |
| Long-term provisions  | 9     | 97,780,727                  | 86,723,329                  |
|   |       | <u>1,741,243,475</u>        | <u>1,604,418,594</u>        |
| <b>Current liabilities</b>  |       |                             |                             |
| Short-term borrowings   | 6     | 816,422,437                 | 720,225,466                 |
| Trade payables  | 10    | 923,563,734                 | 765,973,401                 |
| Other current liabilities   | 11    | 819,092,811                 | 438,574,380                 |
| Short-term provisions   | 9     | 6,605,408                   | 9,076,345                   |
|   |       | <u>2,565,684,390</u>        | <u>1,933,849,592</u>        |
| <b>TOTAL</b>  |       | <u><b>9,027,765,107</b></u> | <u><b>7,073,188,787</b></u> |
| <b>II. ASSETS</b>   |       |                             |                             |
| <b>Non-current assets</b>   |       |                             |                             |
| <b>Fixed assets</b>   |       |                             |                             |
| Tangible assets   | 12    | 3,009,078,574               | 2,532,807,917               |
| Intangible assets   | 13    | 162,182,926                 | 168,764,098                 |
| Capital work-in-progress  |       | 1,644,271,788               | 759,794,585                 |
| Non-current investments   | 14    | 617,882,808                 | 617,882,808                 |
| Long-term loans and advances  | 15    | 453,513,703                 | 514,918,093                 |
| Other non-current assets  | 16    | 4,220,803                   | 9,553,782                   |
|   |       | <u>5,891,150,602</u>        | <u>4,603,721,283</u>        |
| <b>Current assets</b>   |       |                             |                             |
| Current investments   | 17    | 7,374,966                   | 8,156,370                   |
| Inventories   | 18    | 1,103,892,807               | 1,022,324,134               |
| Trade receivables   | 19    | 946,902,353                 | 709,790,043                 |
| Cash and bank balances  | 20    | 366,311,982                 | 323,728,788                 |
| Short-term loans and advances   | 15    | 700,781,973                 | 404,393,040                 |
| Other current assets  | 21    | 11,350,424                  | 1,075,129                   |
|   |       | <u>3,136,614,505</u>        | <u>2,469,467,504</u>        |
| <b>TOTAL</b>  |       | <u><b>9,027,765,107</b></u> | <u><b>7,073,188,787</b></u> |
| <b>Notes 1 to 35 form an integral part of these consolidated financial statements</b> |       |                             |                             |

This is the consolidated balance sheet referred to in our report of even date.

For and on behalf of Board of Directors of  
**NATCO Pharma Limited**

For **Walker, Chandik & Co.**  
Chartered Accountants  
per **Sanjay Kumar**  
Partner

**V.C. Nannapaneni**  
**Rajeev Nannapaneni**

Chairman & Managing Director  
Director & Chief Operating Officer

Place: Hyderabad  
Date : 28 May, 2012

**Dr. P. Bhaskara Narayana**  
**M. Adinarayana**

Director & Chief Financial Officer  
Company Secretary & G M (Corp. Affairs)



**CONSOLIDATED STATEMENT OF PROFIT AND LOSS FOR THE YEAR ENDED 31 MARCH 2012**

(All amounts in ₹, unless otherwise stated)

|   | Notes  | For the year ended<br>31 March, 2012 | For the year ended<br>31 March, 2011 |
|---|--------|--------------------------------------|--------------------------------------|
| <b>REVENUE</b>  |        |                                      |                                      |
| Revenue from operations [Gross]   | 22     | 5,269,601,383                        | 4,650,760,674                        |
| Less: Excise duty   |        | 69,137,773                           | 54,010,223                           |
| Revenue from operations [Net]   |        | 5,200,463,610                        | 4,596,750,451                        |
| Other income  | 23     | 128,203,699                          | 46,413,689                           |
| <b>Total revenue</b>  |        | <b>5,328,667,309</b>                 | <b>4,643,164,140</b>                 |
| <b>EXPENSES</b>   |        |                                      |                                      |
| Cost of materials consumed<br>(including packing material consumed)                                 | 24     | 1,176,723,270                        | 960,104,130                          |
| Purchases of stock-in-trade   |        | 868,254,127                          | 994,371,896                          |
| Changes in inventories of finished goods,<br>work-in-progress and traded goods                      | 25     | (14,186,837)                         | (93,739,671)                         |
| Employee benefit expenses   | 26     | 800,473,507                          | 663,871,363                          |
| Finance costs   | 27     | 230,359,380                          | 141,978,623                          |
| Depreciation and amortisation expense   | 12, 13 | 159,078,915                          | 158,816,096                          |
| Other expenses  | 28     | 1,305,423,069                        | 1,166,529,343                        |
| Prior period item   |        | 7,123,512                            | -                                    |
| <b>Total expenses</b>   |        | <b>4,533,248,943</b>                 | <b>3,991,931,780</b>                 |
| <b>Profit before tax</b>  |        | <b>795,418,366</b>                   | <b>651,232,360</b>                   |
| <b>Tax expense</b>  |        |                                      |                                      |
| Current tax   |        | 172,677,638                          | 149,587,578                          |
| Deferred tax (benefit)/expense  |        | 38,070,613                           | (17,475,030)                         |
| <b>Profit after tax but before minority interest</b>  |        | <b>584,670,114</b>                   | <b>519,119,812</b>                   |
| Minority interest   | 5      | 11,413,344                           | 15,991,318                           |
| Profit after minority interest  |        | 596,083,458                          | 535,111,130                          |
| <b>Earnings per equity share [EPES]</b>   |        |                                      |                                      |
| Basic and diluted (face value ₹10 per share)  |        | 20.53                                | 19.01                                |
| Weighted average number of equity shares<br>considered for computation of Basic and<br>Diluted EPES |        | 29,041,395                           | 28,147,952                           |
| <b>Notes 1 to 35 form an integral part of these consolidated financial statements</b>               |        |                                      |                                      |

This is the consolidated statement of profit and loss referred to in our report of even date.

For and on behalf of Board of Directors of  
**NATCO Pharma Limited**

For **Walker, Chandio & Co.**  
Chartered Accountants  
per **Sanjay Kumar**  
Partner

**V.C. Nannapaneni**  
**Rajeev Nannapaneni**

Chairman & Managing Director  
Director & Chief Operating Officer

Place: Hyderabad  
Date : 28 May, 2012

**Dr. P. Bhaskara Narayana**  
**M. Adinarayana**

Director & Chief Financial Officer  
Company Secretary & G M (Corp. Affairs)

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 1. SIGNIFICANT ACCOUNTING POLICIES

#### a. Basis of consolidation

The consolidated financial statements of NATCO Pharma Limited ("the Company") together with its subsidiaries (collectively referred as the 'Group' or the 'consolidating entities') are prepared under historical cost convention on accrual basis to comply in all material respects with the notified accounting standard prescribed by the Companies (Accounting Standards) Rules, 2006 (the 'Rules'), as amended. The consolidated financial statements have been prepared using uniform accounting policies for like transactions and other events in similar circumstances and are presented to the extent possible in the same manner as the Company's separate financial statements, except otherwise stated for like transactions in similar circumstances.

Pursuant to the amendment to the Schedule VI to the Companies Act, 1956 ("the Act"), effective 1 April 2011 the Group has adopted revised Schedule VI for preparation and presentation of the consolidated financial statements and have reclassified previous year figures to conform to this year's presentation and classification. In relation to the Group, adoption of revised Schedule VI does not impact recognition and measurement principles followed in preparation of the consolidated financial statements. However, it significantly impacts presentation and disclosures made in the consolidated financial statements.

Investments in subsidiaries, except where the investments are acquired exclusively with a view to its subsequent disposal in the near future, are accounted in accordance with accounting principles as defined in the Accounting Standard ('AS') 21 'Consolidated Financial Statements', as prescribed under the Rules.

The financial statements of the consolidating entities are added on a line-by-line basis and material inter-company balances and transactions including unrealized gain and loss from such transactions are eliminated upon consolidation.

The following subsidiaries have been considered for the purpose preparation of consolidated financial statements:

| Names of the consolidating entities                            | Country of Incorporation | Percentage holding /interest (%) |      |
|--|--------------------------|----------------------------------|------|
|  |                          | As at 31 March                   |      |
|  |                          | 2012                             | 2011 |
| NATCO Pharma Inc.  | United States of America | 100                              | 100  |
| K&C Pharmacy, Partnership Firm                                 | United States of America | 75                               | 75   |
| Time Cap Overseas Limited<br>(Incorporated on 8 November 2010) | Mauritius                | 75                               | 70   |
| NATCO Farma Do Brazil, with effect<br>from 27 January 2011     | Brazil                   | 67.5                             | 63   |

#### b. Use of estimates

The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported balances of assets and liabilities and disclosures relating to contingent assets and liabilities as at the date of the financial statements and reported amounts of income and expenses during the period. Examples of such estimates include provisions for doubtful debtors and other receivables, provision for inventories, future obligations under employee retirement benefit plans, income taxes, and the useful lives of fixed assets.

Although these estimates are based upon management's best knowledge of current events and actions, actual results could differ from these estimates. Any revision to accounting estimates is recognised prospectively in the current and future periods.

**c. Fixed assets**

Fixed assets are stated at cost less accumulated depreciation and impairment losses, if any. Cost comprise of purchase price, freight, non-refundable duties, taxes and any other cost attributable to bringing the asset to its working condition for its intended use. Borrowing costs relating to acquisition of fixed assets which takes substantial period of time to get ready for its intended use are also included to the extent they relate to the period till such assets are ready for its intended use. Assets retired from active use and held for disposal are stated at their estimated net realisable values or net book values, whichever is lower.

**d. Depreciation**

Depreciation is provided on Straight Line Method based on useful lives of the assets as estimated by management which coincides with rates prescribed under Schedule XIV to the Act except fixed assets of all other subsidiaries are depreciated over the estimated useful lives, using the Straight Line Method.

Depreciation on sale/discarded from fixed assets is provided for up to the date of sale /discarded as the case may be. Individual assets acquired for ₹5,000 or less are entirely depreciated in the year of acquisition.

**e. Intangible assets**

Intangible assets in the nature of software are amortized over a period of six years and acquired goodwill is amortized over a period of fifteen years, on a straight line basis.

**f. Impairment of assets**

The carrying amounts of assets, both tangible and intangible, are reviewed at each balance sheet date

if there is any indication of impairment based on internal and/or external factors. An impairment loss is recognised wherever the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is greater of the asset's net selling price and value in use.

**g. Investments**

Investments that are readily realizable and intended to be held for not more than a year are classified as current investments. All other investments are classified as long term investments. Current investments are carried at lower of cost and fair value determined on an individual investment basis. Long term investments are carried at cost. However, provision for diminution in value is made to recognise a decline other than temporary in the value of the investments.

**h. Inventories**

Raw material, stock-in-trade, packaging material, stores and spare parts are carried at cost. Cost includes purchase price excluding taxes those are subsequently recoverable by the enterprise from the concerned authorities, freight inwards and other expenditure incurred in bringing such inventories to their present location and condition.

Cost of inventories is determined using the weighted average cost method, except in the case of inventories held by NATCO Pharma Inc., the cost is determined using First-in-first out method.

The carrying cost of raw materials, stock-in-trade, packaging materials and stores and spare parts are appropriately written down when there is a decline in replacement cost of such materials and finished products in which they will be incorporated are expected to be sold below cost.

Finished goods and work in progress are valued at the lower of cost and net realizable value. Cost of work in progress and manufactured finished goods is determined on weighted average basis and comprises cost of direct material, cost of conversion and other costs incurred in bringing these inventories to their present location and

condition. Excise duty liability is included in the valuation of closing inventory of finished goods.

**i. Research and development**

Expenditure incurred on research activity is expensed as and when incurred.

**j. Revenue recognition**

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue measured and collectability is reasonably assured.

- Revenue from sale of goods is recognized on dispatch or on the date of the bill of lading or airway bill in respect of export sales, which coincides with transfer of significant risks and rewards to customer and is inclusive of excise duty and net of trade discounts, sales returns and sales tax, where applicable.
- Service income is recognized as per the terms of contracts with customers when the related services are performed, or the agreed milestones are achieved.
- Dividend income is recognized when the right to receive the payment is established. Income from interest on deposits, loans and interest bearing securities is recognised on the time proportionate methods taking into account the amount outstanding and the rate applicable.
- Export entitlements are recognized as income when the right to receive credit as per the terms of the scheme is established in respect of the exports made and where there is no significant uncertainty regarding the ultimate collection of the relevant export proceeds.
- Revenue from licensing and long term supply arrangements is recognized in the period in which the Company completes all its performance obligations.

**k. Taxes**

Tax expense comprises of current and deferred tax. The current charge for income taxes is calculated

in accordance with the relevant tax regulations applicable to the entities in the Group. Deferred income taxes reflect the impact of timing differences between taxable income and accounting income for the period and reversal of timing differences of earlier periods.

Deferred income taxes reflect the impact of timing differences between taxable income and accounting income for the period and reversal of timing differences of earlier periods. Deferred tax is measured based on the tax rates and the tax laws enacted or subsequently enacted at the balance sheet date. Deferred tax assets are recognised only to the extent that there is reasonable certainty that sufficient future taxable income will be available against which such deferred tax assets can be realised.

In situations where the Group has unabsorbed depreciation or carry forward tax losses, all deferred tax assets are recognised only if there is a virtual certainty supported by convincing evidence that they can be realised against future taxable profits.

Unrecognized deferred tax assets of earlier years are re-assessed and recognised to the extent that it has become reasonably certain or virtually certain, as the case may be that future taxable income will be available against which such deferred tax assets can be realised. The carrying amount of deferred tax assets are reviewed at each balance sheet date.

The Group writes-down the carrying amount of a deferred tax asset to the extent that it is no longer reasonably certain or virtually certain, as the case maybe, that sufficient future taxable income will be available against which deferred tax asset can be realised. Any such write-down is reversed to the extent that it becomes reasonably certain or virtually certain, as the case may be, that sufficient future taxable income will be available.

The break-up of the major components of the deferred tax assets and liabilities as at the balance sheet date have been arrived at after setting off deferred tax assets and liabilities where the group

has a legally enforceable right to set-off assets against liabilities, and where such assets and liabilities relate to taxes on income levied by the same governing taxation laws.

Minimum Alternative tax (MAT) credit is recognized as an asset only when and to the extent there is convincing evidence that the Company will pay normal income tax during the specified period. In the year in which the MAT credit becomes eligible to be recognized as an asset in accordance with the recommendations contained in guidance note issued by the ICAI, the said asset is created by way of a credit to the profit and loss account and shown as MAT credit entitlement. The Company reviews the same at each balance sheet date and writes down the carrying amount of MAT credit entitlement to the extent there is no longer convincing evidence to the effect that Company will pay normal income tax during the specified period.

**I. Earnings per equity share**

Basic earnings per equity share are calculated by dividing the net profit or loss for the period attributable to equity shareholders by the weighted average number of equity shares outstanding during the period. For the purpose of calculating diluted earnings per share, the net profit or loss for the period attributable to equity shareholders and the weighted average number of shares outstanding during the period are adjusted for the effects of all dilutive potential equity shares.

**m. Foreign currency transactions**

The Group has designated all of its foreign operations as 'non-integral foreign operations, in line with the guidance provided under Accounting Standard (AS) 11 'The Effects of Changes in Foreign Exchange Rates' as notified by the Rules.

*Initial recognition*

Foreign currency transactions are recorded in the reporting currency, by applying to the foreign currency amount the exchange rate between the reporting currency and the foreign currency at the date of the transaction.

*Conversion*

Foreign currency monetary items are reported using the closing rate. Non-monetary items which are carried in terms of historical cost denominated in a foreign currency are reported using the exchange rate at the date of the transaction; and non-monetary items which are carried at fair value or other similar valuation denominated in a foreign currency are reported using the exchange rates that existed when the values were determined.

*Exchange differences*

Exchange differences arising on the settlement of monetary items or on reporting Group's monetary items at rates different from those at which they were initially recorded during the year, or reported in previous financial statements, are recognized as income or as expenses in the year in which they arise.

**n. Employee benefits**

*Defined benefit contribution plan*

In respect of the Company, retirement benefits in the form of contribution to provident fund scheme and employee state insurance scheme are charged to profit and loss account of the year when the contribution to the respective fund is due. There are no other obligations other than the contribution payable to the respective fund.

In respect of overseas subsidiaries, retirement benefits in the form of 401(k) plan for eligible employees are charged to profit and loss account of the year when the contribution to respective fund is due. Contributions by the consolidating entity are discretionary and there are no other obligations other than the contribution payable to the respective fund.

*Defined benefit contribution plan*

Gratuity is a post-employment defined benefit plan. An independent actuary, using the projected unit credit method calculates the defined benefit obligation annually. Actuarial gains or losses arising from experience adjustments and changes in actuarial assumptions are credited or charged to

the Profit and Loss Account in the period in which such gains or losses arises.

*Leave encashment*

As per the Company policy, eligible leaves can be accumulated by the employees and carried forward to future periods either to be utilized during the service, or encashed. Encashment can be made during service or on resignation, or retirement of the employee. The value of benefits is determined based on an independent actuarial valuation using the projected unit credit method as at the year end. Actuarial gains and losses are recognized immediately in the Profit and Loss Account.

**o. Leases**

Assets taken on lease where the Group acquires substantially the entire risks and rewards incidental to ownership are classified as finance leases. The amount recorded is the lesser of the present value of the minimum lease rental and other incidental expenses during the lease term or the asset's fair value. The rental obligations, net of interest charges, are reflected in secured loan. Leases that do not transfer substantially all of the risks and rewards of ownership are classified as operating leases and recorded as expenses as and when payments are made over the lease term.

**p. Provisions and contingent liabilities**

A provision is recognised when the Group has a present obligation as a result of past event i.e., it is probable that an outflow of resources will be required to settle the obligation in respect of which

a reliable estimate can be made. Provisions are not discounted to its present value and are determined based on best estimate required to settle the obligation at the balance sheet date. These are reviewed at each balance sheet date and adjusted to reflect the current best estimates. A disclosure of the contingent liability is made when there is a possible or a present obligation that may, but probably will not, require an outflow of resources.

**q. Cash flow statement**

Cash flows are reported using the indirect method, whereby net profit before tax is adjusted for the effects of transactions of a non-cash nature and any deferrals or accruals of past or future cash receipts or payments.

**r. Cash and cash equivalents**

Cash and cash equivalents in the balance sheet comprise cash at bank and in hand and short-term investments.

**2. RECOGNITION OF MINIMUM ALTERNATE TAX (MAT) CREDIT**

The Company has not recognized MAT credit available to it as it opines that it would not be in a position to utilize such credit in view of the continued tax holiday being available for the profits arising out of manufacture and sales made from two of its manufacturing facilities. In the eventuality of the Company being made to pay tax on a regular basis, it would make suitable adjustments by taking credit for the MAT entitlement available at such point of time.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(All amounts in ₹, unless otherwise stated)

|   | As at 31 March 2012 |                    | As at 31 March 2011 |                    |
|---|---------------------|--------------------|---------------------|--------------------|
|   | Number              | Amount             | Number              | Amount             |
| <b>3. SHARE CAPITAL</b>                     |                     |                    |                     |                    |
| <b>Authorised share capital</b>             |                     |                    |                     |                    |
| Equity shares of ₹10 each                   | 32,000,000          | 320,000,000        | 35,000,000          | 350,000,000        |
| Preference shares of ₹10 each               | 3,000,000           | 30,000,000         | -                   | -                  |
| <b>Issued, subscribed and fully paid up</b> |                     |                    |                     |                    |
| Equity shares of ₹10 each                   | 31,147,952          | 311,479,520        | 28,147,952          | 281,479,520        |
| <b>TOTAL</b>                                | <b>31,147,952</b>   | <b>311,479,520</b> | <b>28,147,952</b>   | <b>281,479,520</b> |

**(a) Shareholders holding more than 5% of the equity shares**

|   | As at 31 March 2012 |        | As at 31 March 2011 |        |
|---|---------------------|--------|---------------------|--------|
|   | Number              | %      | Number              | %      |
| Mr. V C Nannapaneni **                      | 8,023,838           | 25.76% | 8,009,009           | 28.45% |
| Time Cap Pharma Labs Ltd                    | 3,409,694           | 10.95% | 3,398,179           | 12.07% |
| Natsoft Information Systems Private Limited | 3,153,500           | 10.12% | 3,153,500           | 11.20% |

\*\* including shares held by Mr. V C Nannapaneni, in the capacity of Karta of HUF of 1,088,009 (2011:1,073,180)

**(b) Reconciliation of equity share capital**

|                                       | Number            | Amount             | Number            | Amount             |
|---------------------------------------|-------------------|--------------------|-------------------|--------------------|
| Balance at the beginning of the year  | 28,147,952        | 281,479,520        | 28,147,952        | 281,479,520        |
| Add: Issued during the year           | 3,000,000         | 30,000,000         | -                 | -                  |
| <b>Balance at the end of the year</b> | <b>31,147,952</b> | <b>311,479,520</b> | <b>28,147,952</b> | <b>281,479,520</b> |

**(c) Rights, preferences, restrictions**

The Company has outstanding of only one class of equity shares having a par value of ₹10 per share. Each holder of equity shares is entitled to one vote per share. The Company declares and pays dividend in Indian rupees. The dividend proposed by the Board of Directors is subject to the approval of the shareholders in the ensuing Annual General Meeting.

**(d) Shares reserved for issue under options and contracts**

The Company had instituted NATCO Stock Option Plan 2010 ( ESOP 2010f). The scheme duly approved by way of a special resolution passed in the annual general meeting of the members held on 30 September 2010 was formulated in compliance with Securities and Exchange Board of India (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999 ("SEBI ESOP Guidelines") issued by the Securities and Exchange Board of India ("SEBI") and pursuant to the provisions of Section 81 (1A) and other applicable provisions of the Act. Pursuant to such approval, the Board is authorized to issue employee stock options, that are exercisable into not more than 600,000 equity shares of the Company to eligible employees based on specific recommendations of the remuneration committee. Each option comprises of one underlying equity share of ₹10 each. As at 31 March 2012 (2011: Nil) no options were granted under the said plan.

**(e) Details of shares issued pursuant to contract without payment being received in cash and brought back during the last 5 years, immediately preceding the balance sheet date.**

|  | As at<br>31 March, 2012<br>No. | As at<br>31 March, 2011<br>No. |
|--|--------------------------------|--------------------------------|
| Equity shares of ₹10 each allotted as fully paid-up pursuant to contracts without payment being received in cash. ** | 211,600                        | 323,150                        |
| Equity shares bought back by the Company   | 458,465                        | 492,881                        |

\*\* The Company has issued these shares during the period of five years, on exercise of the options granted under the employee stock option plan (ESOP) wherein part consideration was received in form of employee services.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in ₹, unless otherwise stated)

|   | As at<br>31 March, 2012 | As at<br>31 March, 2011 |
|---|-------------------------|-------------------------|
| <b>4. RESERVES AND SURPLUS</b>                                |                         |                         |
| <b>Capital reserves</b>                                       |                         |                         |
| Balance at the beginning of the year                          | 204,272,762             | 204,072,762             |
| Add: Additions during the year [Refer (b) below]              | 3,000,000               | 200,000                 |
| Balance at the end of the year                                | <u>207,272,762</u>      | <u>204,272,762</u>      |
| <b>Capital redemption reserve - as per last balance sheet</b> | 4,928,810               | 4,928,810               |
| <b>Securities premium reserve</b>                             |                         |                         |
| Balance at the beginning of the year                          | 819,328,761             | 819,328,761             |
| Add: Additions during the year [Refer (c) below]              | 645,000,000             | -                       |
| Balance at the end of the year                                | <u>1,464,328,761</u>    | <u>819,328,761</u>      |
| <b>General reserve</b>  |                         |                         |
| Balance at the beginning of the year                          | 177,161,000             | 137,161,000             |
| Add: Additions during the year [Refer (a) below]              | 70,000,000              | 40,000,000              |
| Balance at the end of the year                                | <u>247,161,000</u>      | <u>177,161,000</u>      |
| <b>Foreign currency translation reserve</b>                   |                         |                         |
| Balance at the beginning of the year                          | 33,319,593              | 36,031,059              |
| Add: Adjustment during the year                               | 22,187,127              | (2,711,466)             |
| Balance at the end of the year                                | <u>55,506,720</u>       | <u>33,319,593</u>       |
| <b>Surplus in the statement of profit and loss</b>            |                         |                         |
| Balance at the beginning of the year                          | 2,003,840,226           | 1,574,375,046           |
| Add : Profit for the year                                     | 596,083,458             | 535,111,130             |
| Less: Interim dividend - ₹3 (2011: ₹2) per share              | 93,443,856              | 56,295,904              |
| Less: Tax on distributed profits                              | 15,158,930              | 9,350,046               |
| Less: Transferred to general reserve                          | 70,000,000              | 40,000,000              |
| Balance at the end of the year                                | <u>2,421,320,898</u>    | <u>2,003,840,226</u>    |
|   | <u>4,400,518,951</u>    | <u>3,242,851,152</u>    |

**(a) Transfer to general reserve**

In accordance with the provisions of Companies (Transfer of Profits to Reserves) Rules, 1975, based on the amount of dividend declared, the Company has transferred ₹70,000,000 (2011: ₹40,000,000) to general reserve.

**(b) Additions to capital reserves**

During the financial year ended 31 March 2012, the Company received government subsidy aggregating to ₹3,000,000 (2011: ₹200,000) for the purpose of capital activities in the State of Uttarakhand. Pursuant to the terms of 2011-12 grant, assets up to the amount of grant received, has been hypothecated in favour of Director of Industries, Government of Uttarakhand.

**(c) Issue of equity shares at premium**

During the current year, the Company has issued 3,000,000 equity shares of ₹10 each, fully paid-up at a premium of ₹215, through a private placement to Qualified Institutional Investors.



**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(All amounts in ₹, unless otherwise stated)

|                                 | As at<br>31 March, 2012 | As at<br>31 March, 2011 |
|---------------------------------|-------------------------|-------------------------|
| <b>5. MINORITY INTEREST</b>     |                         |                         |
| <i>K &amp; C Pharmacy</i>       |                         |                         |
| As per last balance sheet       | 4,375,689               | 49,401,682              |
| Add: Additions during the year  | -                       | -                       |
|                                 | <u>4,375,689</u>        | <u>49,401,682</u>       |
| Add: Share in loss for the year | -                       | (14,391,808)            |
| Less: Partnership distribution  | -                       | 30,634,185              |
| <b>TOTAL (A)</b>                | <u>4,375,689</u>        | <u>4,375,689</u>        |
| <i>Timecap Overseas Limited</i> |                         |                         |
| As per last balance sheet       | 6,214,240               | -                       |
| Add: Additions during the year  | 5,199,104               | 7,813,750               |
|                                 | <u>11,413,344</u>       | <u>7,813,750</u>        |
| Add: loss for the year **       | (11,413,344)            | (1,599,510)             |
| <b>TOTAL (B)</b>                | -                       | 6,214,240               |
| <i>NATCO Farma Do Brasil</i>    |                         |                         |
| <b>TOTAL (C)</b>                | <u>4,463,082</u>        | -                       |
| <b>TOTAL (A+B+C)</b>            | <u>8,838,771</u>        | <u>10,589,929</u>       |

\*\*The share of loss relating to minority interest is adjusted only to the extent of contribution available.

|                                  | As at 31 March 2012  |                    | As at 31 March 2011  |                    |
|----------------------------------|----------------------|--------------------|----------------------|--------------------|
|                                  | Long term            | Short term         | Long term            | Short term         |
| <b>6. BORROWINGS</b>             |                      |                    |                      |                    |
| <b>Secured [refer note 30]</b>   |                      |                    |                      |                    |
| <b>Term loans</b>                |                      |                    |                      |                    |
| From banks                       | 726,248,938          | -                  | 424,496,853          | -                  |
| From other parties               | 614,176,471          | -                  | 827,647,059          | -                  |
|                                  | <u>1,340,425,409</u> | <u>-</u>           | <u>1,252,143,912</u> | <u>-</u>           |
| <b>Unsecured</b>                 |                      |                    |                      |                    |
| Deferred payment liabilities     | 561,156              | -                  | 2,195,783            | -                  |
| <b>Loans repayable on demand</b> |                      |                    |                      |                    |
| <b>Secured [refer note 31]</b>   |                      |                    |                      |                    |
| From banks                       | -                    | 717,089,070        | -                    | 720,225,466        |
| <b>Unsecured [refer note 30]</b> |                      |                    |                      |                    |
| From banks                       | -                    | 99,333,367         | -                    | -                  |
| <b>Total borrowings</b>          | <u>1,340,986,565</u> | <u>816,422,437</u> | <u>1,254,339,695</u> | <u>720,225,466</u> |

**Loans repayable on demand**

Loans repayable on demand represents cash credit, overdraft, bills purchased and discounted with various banks/ financial institutions.

**Deferred payment liabilities**

It represents interest free sales tax deferment, availed under the TARGET 2000 Scheme of the State Government of Andhra Pradesh.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in ₹, unless otherwise stated)

|  | As at<br>31 March, 2012 | As at<br>31 March, 2011 |
|--|-------------------------|-------------------------|
| <b>7. DEFERRED TAX LIABILITY, NET</b>      |                         |                         |
| On account of depreciation                 | 313,976,066             | 269,485,323             |
| On account of employee benefits and others | <u>(25,036,158)</u>     | <u>(18,616,028)</u>     |
| <b>Net deferred tax liability</b>          | <u>288,939,908</u>      | <u>250,869,295</u>      |
| <b>8. Other long term liabilities</b>      |                         |                         |
| Trade deposits                             | <u>13,536,275</u>       | <u>12,486,275</u>       |
|  | <u>13,536,275</u>       | <u>12,486,275</u>       |

|  | As at 31 March 2012 |                  | As at 31 March 2011 |                  |
|--|---------------------|------------------|---------------------|------------------|
|  | Long term           | Short term       | Long term           | Short term       |
| <b>9. PROVISIONS</b>                             |                     |                  |                     |                  |
| Provisions for employee benefits [Refer b below] | 65,905,727          | 2,372,716        | 54,848,329          | 1,194,504        |
| Provision for taxation [net of advance tax]      | -                   | 4,232,692        | -                   | 7,881,841        |
| Provision for contingencies [Refer a below]      | <u>31,875,000</u>   | -                | <u>31,875,000</u>   | -                |
|  | <u>97,780,727</u>   | <u>6,605,408</u> | <u>86,723,329</u>   | <u>9,076,345</u> |

**a. Provision for contingencies represents:**

Provision for contingencies represents, possible obligations that may arise in view of uncertainties associated with certain revenue transactions entered into by the company.

|                                      | As at<br>31 March, 2012 | As at<br>31 March, 2011 |
|--------------------------------------|-------------------------|-------------------------|
| <b>Reconciliation</b>                |                         |                         |
| Opening balance                      | 31,875,000              | -                       |
| Additions during the year            | -                       | 31,875,000              |
| Reversal/utilization during the year | -                       | -                       |
| Closing balance                      | <u>31,875,000</u>       | <u>31,875,000</u>       |

**b. Employee benefits**

Provision for employee benefits includes provision towards gratuity of ₹45,868,185 (2011: ₹32,152,749) and compensated absences of ₹22,410,258 (2011: ₹23,890,084).

The Company has subscribed to a group gratuity scheme of Life Insurance Corporation of India (LIC). Under this policy the eligible employees are entitled for gratuity upon their resignation or in the event of death in lumpsum after deduction of necessary taxes upto a maximum limit of ₹1,000,000. The following table sets out the status of the gratuity plan and the reconciliation of opening and closing balances of the defined benefit obligation.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(All amounts in ₹, unless otherwise stated)

|  | As at<br>31 March, 2012                      | As at<br>31 March, 2011              |
|--|--|--------------------------------------|
| <b>Employee benefits (Contd.)</b>  |  |                                      |
| <b>i. Change in projected benefit obligation</b>   |  |                                      |
| Projected benefit obligation at the beginning of the year                                  | 58,231,217                                   | 55,081,820                           |
| Service cost   | 4,282,414                                    | 3,494,236                            |
| Interest cost  | 4,658,497                                    | 4,406,546                            |
| Actuarial (gain)/loss  | 7,133,657                                    | (2,872,373)                          |
| Benefits paid  | (1,143,748)                                  | (1,879,012)                          |
| Projected benefit obligation at the end of the year  | <u>73,162,037</u>                            | <u>58,231,217</u>                    |
| <b>ii. Change in plan assets</b>   |  |                                      |
| Fair value of plan assets at the beginning of the year                                     | 26,078,468                                   | 22,240,895                           |
| Expected return on plan assets   | 2,359,132                                    | 2,086,285                            |
| Contribution paid  | -  | 3,630,300                            |
| Benefits paid  | (1,143,748)                                  | (1,879,012)                          |
| Fair value of plan assets at the end of the year   | <u>27,293,852</u>                            | <u>26,078,468</u>                    |
| <b>iii. Reconciliation of present value of obligation on the fair value of plan assets</b> |  |                                      |
| Projected benefit obligation at the end of the year  | 73,162,037                                   | 58,231,217                           |
| Funded status of the plans   | 27,293,852                                   | 26,078,468                           |
| Liability recognised in the balance sheet  | <u>45,868,185</u>                            | <u>32,152,749</u>                    |
|  | <b>For the year ended<br/>31 March, 2012</b> | For the year ended<br>31 March, 2011 |
| <b>iv. Components of net gratuity costs are</b>  |  |                                      |
| Service cost   | 4,282,414                                    | 3,494,236                            |
| Interest cost  | 4,658,497                                    | 4,406,546                            |
| Expected returns on plan assets  | (2,359,132)                                  | (2,086,285)                          |
| Recognized net actuarial (gain)/ loss  | 7,133,657                                    | (2,872,373)                          |
| Net gratuity costs   | <u>13,715,436</u>                            | <u>2,942,124</u>                     |
| <b>v. Assumptions used</b>   |  |                                      |
| Discount rate  | 8%   | 8%                                   |
| Long-term rate of compensation increase  | 4%   | 4%                                   |
| Rate of return on plan assets  | <u>9.25%</u>                                 | <u>9.25%</u>                         |

The Company assesses these assumptions with the projected long-term plans of growth and prevalent industry standards.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(All amounts in ₹, unless otherwise stated)

|  | As at<br>31 March, 2012 | As at<br>31 March, 2011 |
|--|-------------------------|-------------------------|
| <b>10. TRADE PAYABLES</b>                  |                         |                         |
| Creditors for purchases and expenses       | 766,413,492             | 675,599,688             |
| Employee and other payables                | 157,150,242             | 90,373,713              |
|  | <u>923,563,734</u>      | <u>765,973,401</u>      |
| <b>11. OTHER CURRENT LIABILITIES</b>       |                         |                         |
| Current maturities of long term debt       |                         |                         |
| - From banks                               | 237,946,674             | 125,000,000             |
| - From other parties                       | 189,470,588             | 97,352,941              |
| Current maturities of unsecured loans      | 1,632,028               | 2,806,464               |
| Creditors for capital assets               | 210,171,583             | 159,900,178             |
| Book overdraft                             | 31,000,614              | -                       |
| Interest accrued but not due on borrowings | 11,093,108              | 1,485,256               |
| Advance from customers                     | 106,307,670             | 26,804,530              |
| Unpaid dividends                           | 6,031,940               | 4,150,192               |
| Statutory liabilities                      | 25,438,606              | 21,074,819              |
|  | <u>819,092,811</u>      | <u>438,574,380</u>      |

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(All amounts in ₹, unless otherwise stated)

**12. TANGIBLE ASSETS**

| Gross block                        | Freehold land      | Leasehold land    | Buildings            | Plant and equipment  | Office equipment  | Furniture         | Vehicles          | Computers         | Total                |
|------------------------------------|--------------------|-------------------|----------------------|----------------------|-------------------|-------------------|-------------------|-------------------|----------------------|
| <b>Balance as at 1 April 2010</b>  | <b>231,566,534</b> | <b>16,725,782</b> | <b>1,015,869,008</b> | <b>1,755,433,306</b> | <b>36,636,494</b> | <b>25,180,649</b> | <b>54,494,132</b> | <b>69,832,860</b> | <b>3,205,738,765</b> |
| Additions                          | 28,247,566         | -                 | 52,980,679           | 232,902,493          | 1,619,611         | 6,340,758         | 21,990,952        | 4,579,161         | 348,661,221          |
| Disposals                          | -                  | -                 | -                    | -                    | 3,137,230         | 3,385,500         | 5,649,016         | 2,387,319         | 14,559,065           |
| Foreign exchange adjustments       | -                  | -                 | -                    | -                    | (142,191)         | (45,607)          | (15,284)          | (47,401)          | (250,483)            |
| <b>Balance as at 31 March 2011</b> | <b>259,814,100</b> | <b>16,725,782</b> | <b>1,068,849,687</b> | <b>1,988,335,799</b> | <b>34,976,684</b> | <b>28,090,300</b> | <b>70,820,784</b> | <b>71,977,301</b> | <b>3,539,590,438</b> |
| Additions                          | 69,823,025         | -                 | 200,203,695          | 335,477,601          | 2,051,229         | 11,300,565        | 6,685,026         | 4,548,236         | 630,089,377          |
| Foreign exchange adjustments       | -                  | -                 | -                    | -                    | 1,844,478         | 640,840           | 162,630           | 559,890           | 3,207,838            |
| <b>Balance as at 31 March 2012</b> | <b>329,637,125</b> | <b>16,725,782</b> | <b>1,269,053,382</b> | <b>2,323,813,400</b> | <b>38,872,391</b> | <b>40,031,705</b> | <b>77,668,440</b> | <b>77,085,427</b> | <b>4,172,887,653</b> |
| Accumulated depreciation           |                    |                   |                      |                      |                   |                   |                   |                   |                      |
| <b>Up to 1 April 2010</b>          | -                  | <b>942,678</b>    | <b>176,747,423</b>   | <b>569,775,326</b>   | <b>13,985,043</b> | <b>16,884,921</b> | <b>29,106,502</b> | <b>64,814,693</b> | <b>872,256,586</b>   |
| Depreciation charge                | -                  | 118,028           | 36,689,240           | 91,848,393           | 3,357,260         | 2,932,525         | 6,187,305         | 3,584,655         | 144,717,406          |
| Reversal on disposal of assets     | -                  | -                 | -                    | -                    | 2,774,233         | 2,941,282         | 2,290,548         | 2,009,886         | 10,015,949           |
| Foreign exchange adjustments       | -                  | -                 | -                    | -                    | 1,170,103         | (918,056)         | 44,543            | (472,111)         | (175,521)            |
| <b>Up to 31 March 2011</b>         | -                  | <b>1,060,706</b>  | <b>213,436,663</b>   | <b>661,623,719</b>   | <b>15,738,173</b> | <b>15,958,108</b> | <b>33,047,802</b> | <b>65,917,351</b> | <b>1,006,782,522</b> |
| Depreciation charge                | -                  | 188,536           | 36,638,885           | 103,133,452          | 3,711,867         | 4,119,975         | 4,963,216         | 2,135,801         | 154,891,732          |
| Foreign exchange adjustments       | -                  | -                 | -                    | -                    | 1,408,264         | 299,610           | 84,926            | 342,025           | 2,134,825            |
| <b>Up to 31 March 2012</b>         | -                  | <b>1,249,242</b>  | <b>250,075,548</b>   | <b>764,757,171</b>   | <b>20,858,304</b> | <b>20,377,693</b> | <b>38,095,944</b> | <b>68,395,177</b> | <b>1,163,809,079</b> |
| <b>Net block</b>                   |                    |                   |                      |                      |                   |                   |                   |                   |                      |
| Balance as at 31 March 2011        | 259,814,100        | 15,665,076        | 855,413,024          | 1,326,712,080        | 19,238,512        | 12,132,194        | 37,772,982        | 6,059,950         | 2,532,807,917        |
| <b>Balance as at 31 March 2012</b> | <b>329,637,125</b> | <b>15,476,540</b> | <b>1,018,977,834</b> | <b>1,559,056,229</b> | <b>18,014,087</b> | <b>19,654,012</b> | <b>39,572,496</b> | <b>8,690,250</b>  | <b>3,009,078,574</b> |

(a) Leasehold land include land acquired from the State Industrial Development Corporation of Uttar Pradesh State Industrial Development Corporation Limited for a period of 87 years.

(b) Please refer note 27 for borrowing cost capitalized during the year.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in ₹, unless otherwise stated)

### 13. INTANGIBLE ASSETS

| Gross block                        | Computer Software | Goodwill           | Total              |
|------------------------------------|-------------------|--------------------|--------------------|
| <b>Balance as at 1 April 2010</b>  | <b>12,859,860</b> | <b>350,014,386</b> | <b>362,874,246</b> |
| Additions                          | 9,517,378         | 32,029,945         | 41,547,323         |
| Deletions/adjustments              | -                 | 198,698,742        | 198,698,742        |
| Foreign exchange adjustments       | -                 | (1,642,549)        | (1,642,549)        |
| <b>Balance as at 31 March 2011</b> | <b>22,377,238</b> | <b>181,703,040</b> | <b>204,080,278</b> |
| Additions                          | 5,301,609         | -                  | 5,301,609          |
| Deletions/Adjustments              | -                 | 7,123,512          | 7,123,512          |
| Foreign exchange adjustments       | 17,416            | 3,777,574          | 3,794,990          |
| <b>Balance as at 31 March 2012</b> | <b>27,696,263</b> | <b>178,357,102</b> | <b>206,053,365</b> |
| <b>Accumulated amortisation</b>    |                   |                    |                    |
| <b>Up to 1 April 2010</b>          | <b>4,674,172</b>  | <b>75,631,032</b>  | <b>80,305,204</b>  |
| Amortization charge                | 2,717,284         | 11,414,445         | 14,131,729         |
| Deletions/Adjustments              | 2,009,886         | 56,684,857         | 58,694,743         |
| Foreign exchange adjustments       | -                 | (426,010)          | (426,010)          |
| <b>Up to 31 March 2011</b>         | <b>5,381,570</b>  | <b>29,934,610</b>  | <b>35,316,180</b>  |
| Amortization charge                | 4,187,183         | -                  | 4,187,183          |
| Foreign exchange adjustments       | 4,936             | 4,362,140          | 4,367,076          |
| <b>Up to 31 March 2012</b>         | <b>9,573,689</b>  | <b>34,296,750</b>  | <b>43,870,439</b>  |
| <b>Net block</b>                   |                   |                    |                    |
| Balance as at 31 March 2011        | 16,995,668        | 151,768,430        | 168,764,098        |
| <b>Balance as at 31 March 2012</b> | <b>18,122,574</b> | <b>144,060,352</b> | <b>162,182,926</b> |

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(All amounts in ₹, unless otherwise stated)

|  | As at 31 March 2012 |                   | As at 31 March 2011 |                   |
|--|---------------------|-------------------|---------------------|-------------------|
|  | Trade               | Others            | Trade               | Others            |
| <b>14. NON-CURRENT INVESTMENTS</b>   |                     |                   |                     |                   |
| (Valued at cost unless stated otherwise)   |                     |                   |                     |                   |
| <b>Investments in equity instruments</b>   |                     |                   |                     |                   |
| 750 (2011: 750) equity shares of 100 each, fully paid-up, in Jeedimetla Effluent Treatment Limited   | 75,000              | -                 | 75,000              | -                 |
| 34,400 (2011: 34,400) equity shares of 10 each, fully paid-up, in Pattancheru Enviro-Tech Limited  | 344,000             | -                 | 344,000             | -                 |
| 27,000 (2011: 27,000) equity shares of 10 each, fully paid-up in Jayalakshi Spinning Mills Limited   | -                   | 270,000           | -                   | 270,000           |
| Share application money in NATCO Organics Limited  | 602,459,898         | -                 | 602,459,898         | -                 |
|  | <b>602,878,898</b>  | <b>270,000</b>    | <b>602,878,898</b>  | <b>270,000</b>    |
| <b>Other non-current investments</b>   |                     |                   |                     |                   |
| <i>Investment in portfolio management services</i>   |                     |                   |                     |                   |
| 15,000,000 (2011: 12,219,036) compulsorily convertible preference shares of 1 each, fully paid-up in Ravindranath GE Medical Associates Private Limited. | -                   | 15,000,000        | -                   | 12,219,036        |
| Nil (2011: 272,644) units at 10.02 each in HDFC Cash Management Fund   | -                   | -                 | -                   | 2,780,964         |
|  | -                   | 15,000,000        | -                   | 15,000,000        |
| National savings certificates  | -                   | 3,910             | -                   | 3,910             |
|  | -                   | 15,003,910        | -                   | 15,003,910        |
| <b>Total non current investments</b>   | <b>602,878,898</b>  | <b>15,273,910</b> | <b>602,878,898</b>  | <b>15,273,910</b> |
| Less: provision for diminution in value of investment  | -                   | 270,000           | -                   | 270,000           |
|  | <b>602,878,898</b>  | <b>15,003,910</b> | <b>602,878,898</b>  | <b>15,003,910</b> |
| Quoted investments   |                     | 270,000           |                     | 270,000           |
| Market value of quoted investments   |                     | -                 |                     | -                 |
| Unquoted investments [including share application money]   |                     | 617,882,808       |                     | 617,882,808       |
| Provision for diminution in value of investments   |                     | 270,000           |                     | 270,000           |

**Investment in portfolio management services**

As at 31 March 2012 the Company has made an investment, aggregating to 15,000,000 in the private equity opportunities fund of Anand Rath Financial Services Limited (ARFSL). By virtue of shareholders agreement and share subscription agreement, both dated 29 November 2010, ARFSL has invested, among others, the investment made by the Company, in the Compulsorily Convertible Preference Shares of Ravindranath GE Medical Associates Private Limited. The company's investment in the private equity opportunities fund of ARFSL provides for a return of 20% in excess of 16% on a gross pre-tax IRR basis. In the absence of reasonable certainty of realization of return, no income was accrued on such investment for the year ended 31 March 2012.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in ₹, unless otherwise stated)

|                                       | As at 31 March 2012 |                    | As at 31 March 2011 |                    |
|---------------------------------------|---------------------|--------------------|---------------------|--------------------|
|                                       | Long term           | Short term         | Long term           | Short term         |
| <b>15. LOANS AND ADVANCES</b>         |                     |                    |                     |                    |
| <i>Unsecured, considered good</i>     |                     |                    |                     |                    |
| Capital advances                      | 177,290,805         | -                  | 227,351,343         | -                  |
| Security deposits                     | 20,655,957          | -                  | 15,584,362          | -                  |
| Advance tax, net                      | -                   | 140,517,257        | -                   | 80,857,658         |
| Loans and advances to related parties | 255,566,941         | 170,000,000        | 271,982,388         | 41,250,000         |
| Prepaid expenses                      | -                   | 17,440,864         | -                   | 10,560,575         |
| Balances with government authorities  | -                   | 237,169,435        | -                   | 159,106,954        |
| Notes receivable                      | -                   | 29,203,511         | -                   | 26,566,750         |
| Advances for purchases and expenses   | -                   | 69,377,065         | -                   | 56,980,657         |
| Other advances                        | -                   | 37,073,841         | -                   | 29,070,446         |
|                                       | <b>453,513,703</b>  | <b>700,781,973</b> | <b>514,918,093</b>  | <b>404,393,040</b> |

Loans and advances to related parties include ₹425,478,283 [2011: ₹306,077,225] advanced to a related party against future supplies. Short term portion of such advances is identified by management based on expected supplies during the subsequent financial year.

|  | As at<br>31 March, 2012 | As at<br>31 March, 2011 |
|--|-------------------------|-------------------------|
| <b>16. OTHER NON-CURRENT ASSETS</b>  |                         |                         |
| Non-current bank balances [Refer note 20]  | 4,220,803               | 9,553,782               |
|  | <b>4,220,803</b>        | <b>9,553,782</b>        |
| <b>17. CURRENT INVESTMENTS</b>   |                         |                         |
| Valued at lower of cost and fair value   |                         |                         |
| <b>Investments in equity instruments</b>   |                         |                         |
| 93,365 (2011: 45,194) equity shares of ₹10 each, fully paid-up in Neuland Laboratories Limited       | 6,866,996               | 5,287,698               |
| 1,000 (2011: Nil) equity shares of ₹10 each, fully paid-up in Sun Pharmaceuticals Industries Limited | 507,970                 | -                       |
| Nil (2011: 24,250) equity shares of ₹10 each, fully paid-up in JB Chemicals Limited                  | -                       | 2,868,672               |
| <b>Total current investments</b>   | <b>7,374,966</b>        | <b>8,156,370</b>        |
| <i>Aggregate amount of</i>   |                         |                         |
| Quoted investments   | 7,374,966               | 8,156,370               |
| Market value of quoted investments   | 7,436,946               | 8,495,973               |
| Provision for diminution in value of investments   | 3,265,855               | 500,358                 |



**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(All amounts in ₹, unless otherwise stated)

|  | As at<br>31 March, 2012 |  | As at<br>31 March, 2011 |  |
|--|-------------------------|--|-------------------------|--|
| <b>18. INVENTORIES</b>   |                         |  |                         |  |
| (Valued at cost or lower of net realisable value)  |                         |  |                         |  |
| Raw materials [including in-transit of 25,975,063 (2011: 12,057,185)]  | 328,601,728             |  | 254,447,364             |  |
| Work-in-progress   | 368,403,712             |  | 348,374,790             |  |
| Finished goods   | 86,729,795              |  | 115,616,978             |  |
| Stores and spares [including in-transit of 7,432,065 (2011: 14,700,029)]   | 101,949,782             |  | 128,790,162             |  |
| Packing materials [including in-transit of 307,012 (2011: 801,845)]  | 56,461,910              |  | 50,307,117              |  |
| Stock-in-trade [including in-transit of 404,705 (2011: 2,622,470)]**   | 161,745,880             |  | 124,787,723             |  |
|  | <u>1,103,892,807</u>    |  | <u>1,022,324,134</u>    |  |
| **includes traded goods amounting to 112,167,942 (2011: 92,123,577) determined using first- in-first-out method, as against the group policy of weighted average cost. |                         |  |                         |  |
| <b>19. TRADE RECEIVABLES</b>   |                         |  |                         |  |
| Outstanding for a period exceeding six months from the date they are due for payment   |                         |  |                         |  |
| Unsecured considered good  | 24,349,617              |  | 36,441,254              |  |
| Doubtful   | 15,450,169              |  | 10,334,519              |  |
|  | <u>39,799,786</u>       |  | <u>46,775,773</u>       |  |
| Less: Allowances for bad and doubtful debts  | 15,450,169              |  | 10,334,519              |  |
|  | <u>24,349,617</u>       |  | <u>36,441,254</u>       |  |
| Other debts  |                         |  |                         |  |
| Unsecured considered good  | 922,552,736             |  | 673,348,789             |  |
| Doubtful   | -                       |  | 4,465,000               |  |
|  | <u>922,552,736</u>      |  | <u>677,813,789</u>      |  |
| Less: Allowances for bad and doubtful debts  | -                       |  | 4,465,000               |  |
|  | <u>946,902,353</u>      |  | <u>709,790,043</u>      |  |

|   | As at 31 March 2012 |                  | As at 31 March 2011 |                  |
|---|---------------------|------------------|---------------------|------------------|
|   | Current             | Non-current      | Current             | Non-current      |
| <b>20. CASH AND BANK BALANCES</b>             |                     |                  |                     |                  |
| <b>Cash and cash equivalents</b>              |                     |                  |                     |                  |
| Cash on hand                                  | 11,812,460          | -                | 5,074,553           | -                |
| Balances with banks                           | -                   | -                | -                   | -                |
| - in current accounts                         | 58,736,632          | -                | 56,719,595          | -                |
| - in deposit account                          | 275,895,797         | -                | 255,172,721         | -                |
|   | <u>346,444,889</u>  | -                | <u>316,966,869</u>  | -                |
| <b>Other bank balances</b>                    |                     |                  |                     |                  |
| Unpaid dividend account                       | 6,031,940           | -                | 4,150,192           | -                |
| Bank deposits held with banks as margin money | 13,835,153          | 4,220,803        | 2,611,727           | 9,553,782        |
|   | <u>19,867,093</u>   | <u>4,220,803</u> | <u>6,761,919</u>    | <u>9,553,782</u> |
| <b>Total cash and bank balances</b>           | <u>366,311,982</u>  | <u>4,220,803</u> | <u>323,728,788</u>  | <u>9,553,782</u> |



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in ₹, unless otherwise stated)

|  | As at<br>31 March, 2012              | As at<br>31 March, 2011              |
|--|--------------------------------------|--------------------------------------|
| <b>21. OTHER CURRENT ASSETS</b>  |                                      |                                      |
| Interest accrued on fixed deposits   | 11,350,424                           | 1,075,129                            |
|  | <u>11,350,424</u>                    | <u>1,075,129</u>                     |
|  |                                      |                                      |
|  | For the year ended<br>31 March, 2012 | For the year ended<br>31 March, 2011 |
| <b>22. REVENUE</b>   |                                      |                                      |
| <b>Revenue from operations</b>   |                                      |                                      |
| Sale of products   | 5,098,627,918                        | 4,427,849,287                        |
| Sale of services   | 38,483,783                           | 75,405,617                           |
| Other operating revenues   |                                      |                                      |
| Job work charges   | 89,549,686                           | 109,777,459                          |
| Export incentives  | 30,907,494                           | 27,384,341                           |
| Scrap sales  | 12,032,502                           | 10,343,970                           |
|  | <u>132,489,682</u>                   | <u>147,505,770</u>                   |
| Revenue from operations [Gross]  | <u>5,269,601,383</u>                 | <u>4,650,760,674</u>                 |
| <b>23. OTHER INCOME</b>  |                                      |                                      |
| Interest income  | 24,874,055                           | 2,209,130                            |
| Dividend income  | 220,720                              | -                                    |
| Net gain on sale of investments  | 747,897                              | -                                    |
| Net gain on foreign currency transaction and translation                               | 61,343,675                           | 20,186,901                           |
| Other non-operating income   | 41,017,352                           | 24,017,658                           |
|  | <u>128,203,699</u>                   | <u>46,413,689</u>                    |
| <b>24. COST OF RAW MATERIALS CONSUMED<br/>(including packing materials consumed) #</b> |                                      |                                      |
| Opening stock  | 304,754,481                          | 212,307,366                          |
| Add:Purchases during the year  | 1,257,032,427                        | 1,052,551,245                        |
| Less:Closing stock   | 385,063,638                          | 304,754,481                          |
|  | <u>1,176,723,270</u>                 | <u>960,104,130</u>                   |
| # Disclosed based on derived figures,<br>rather than actual records of issue.          |                                      |                                      |

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(All amounts in ₹, unless otherwise stated)

|  | For the year ended<br>31 March, 2012 | For the year ended<br>31 March, 2011 |
|--|--------------------------------------|--------------------------------------|
| <b>25. CHANGES IN INVENTORIES OF FINISHED GOODS,<br/>WORK-IN-PROGRESS AND STOCK-IN-TRADE</b> |                                      |                                      |
| Opening stock  |                                      |                                      |
| - Finished goods   | 115,616,978                          | 78,398,904                           |
| - Work-in-progress   | 348,374,790                          | 265,955,090                          |
| - Stock-in-trade   | 124,787,723                          | 151,443,163                          |
|  | <u>588,779,491</u>                   | <u>495,797,157</u>                   |
| Closing stock  |                                      |                                      |
| - Finished goods   | 86,729,795                           | 115,616,978                          |
| - Work-in-progress   | 368,403,712                          | 348,374,790                          |
| - Stock-in-trade   | 161,745,880                          | 124,787,723                          |
|  | <u>616,879,387</u>                   | <u>588,779,491</u>                   |
| Currency translation adjustment  | 13,913,059                           | (757,337)                            |
|  | <u>(14,186,837)</u>                  | <u>(93,739,671)</u>                  |
| <b>26. EMPLOYEE BENEFIT EXPENSE</b>  |                                      |                                      |
| Salaries and wages   | 650,520,355                          | 514,182,998                          |
| Contribution to provident and other funds  | 62,838,845                           | 37,062,826                           |
| Staff welfare expenses   | 87,114,307                           | 112,625,539                          |
|  | <u>800,473,507</u>                   | <u>663,871,363</u>                   |
| <b>27. FINANCE COSTS</b>   |                                      |                                      |
| Interest expenses  | 211,796,315                          | 124,890,998                          |
| Bank charges   | 18,563,065                           | 17,087,625                           |
|  | <u>230,359,380</u>                   | <u>141,978,623</u>                   |

Interest expenses is after capitalization of ₹8,345,716 to tangible assets and ₹74,313,778 to capital work in progress (2011: ₹3,431,373 and ₹18,281,826 respectively).



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in ₹, unless otherwise stated)

|   | For the year ended<br>31 March, 2012 | For the year ended<br>31 March, 2011 |
|---|--------------------------------------|--------------------------------------|
| <b>28. OTHER EXPENSES</b>                                 |                                      |                                      |
| Consumption of stores and spare parts                     | 77,994,576                           | 66,218,865                           |
| Power and fuel  | 268,813,296                          | 214,101,993                          |
| Rent  | 24,445,071                           | 21,643,250                           |
| Repairs and maintenance                                   |                                      |                                      |
| - Buildings   | 33,649,113                           | 20,291,854                           |
| - Plant and equipment                                     | 84,107,172                           | 63,883,922                           |
| - Others  | 29,424,306                           | 26,881,662                           |
| Insurance   | 24,365,923                           | 21,209,522                           |
| Rates and taxes   | 58,064,943                           | 42,406,257                           |
| Factory maintenance expenses                              | 79,177,007                           | 66,836,104                           |
| Analysis charges  | 44,927,149                           | 47,219,495                           |
| Carriage and freight outwards                             | 42,796,289                           | 38,594,314                           |
| Advertisements  | 10,437,854                           | 12,932,007                           |
| Donations   | 25,842,325                           | 19,671,725                           |
| Communication expenses                                    | 16,474,740                           | 15,380,959                           |
| Office maintenance and other expenses                     | 40,914,583                           | 28,100,270                           |
| Travelling and conveyance                                 | 51,688,582                           | 50,225,069                           |
| Legal and professional fees                               | 68,328,911                           | 79,110,230                           |
| Payments to auditors [refer note 34]                      | 1,954,236                            | 1,078,500                            |
| Adjustments to the carrying amount of current investments | 3,265,855                            | 500,358                              |
| Inventory written-off                                     | 3,751,630                            | 2,260,108                            |
| Provision for contingencies                               | -                                    | 31,875,000                           |
| Loss on sale of asset                                     | -                                    | 55,921,488                           |
| Provision for doubtful debts                              | -                                    | 9,729,325                            |
| Bad debts   | 6,039,770                            | -                                    |
| Directors sitting fee                                     | 180,000                              | 170,000                              |
| Sales promotion expenses including sales commssion        | 172,040,771                          | 80,893,583                           |
| Research and development expenses                         | 84,270,985                           | 110,461,866                          |
| Printing and stationery                                   | 18,368,924                           | 13,884,019                           |
| Miscellaneous expenses                                    | 34,099,058                           | 25,047,598                           |
|   | <u>1,305,423,069</u>                 | <u>1,166,529,343</u>                 |

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(All amounts in ₹, unless otherwise stated)

**29. RELATED PARTIES**

| <b>Names of related parties</b>                             | <b>Nature of relationship</b>  |
|---|--|
| NATCO Organics Limited                                      | Companies/entities in which Directors having significant influence or able to exercise control |
| Time Cap Pharma Labs Limited                                |  |
| NATCO Trust, Hyderabad                                      |  |
| NATCO Group Employees Welfare Trust                         |  |
| Natsoft Information Systems Private Limited                 |  |
| NDL Infratech Private Limited                               |  |
| V C Nannapaneni, Chairman & Managing Director               | Key management personnel   |
| Rajeev Nannapaneni, Director and COO                        | Key management personnel   |
| Dr. P Bhaskara Narayana, Director & Chief Financial Officer | Key management personnel   |
| Dr. A K S Bhujanga Rao, Director                            | Key management personnel   |
| Dr. N Ramakrishna Rao                                       | Relative of key management personnel   |
| Durga Devi Nannapaneni                                      | Relative of key management personnel   |

| <b>Transactions with related parties</b>                            | <b>For the year ended<br/>31 March, 2012</b> | <b>For the year ended<br/>31 March, 2011</b> |
|---|--|--|
| <b>Transactions with entities in which directors are interested</b> |  |  |
| <b><i>NATCO Organics Limited</i></b>                                |  |  |
| Advance towards future supplies                                     | 159,343,231                                  | 306,077,225                                  |
| Rental expense  | 1,140,000                                    | 1,140,000                                    |
| Purchases   | 41,250,559                                   | -  |
| Sales   | 3,021,097                                    | -  |
| <b><i>Time Cap Pharma Labs Limited</i></b>                          |  |  |
| Income from Job work charges and sales                              | 1,965,240                                    | 6,220,841                                    |
| Income from rent  | 120,000                                      | 120,000                                      |
| Commission and expenses reimbursement                               | 4,885,751                                    | 5,341,493                                    |
| Purchases   | 1,681,961                                    | 2,678,000                                    |
| Rental expense  | 1,620,000                                    | 1,620,000                                    |
| Advances given  | 19,021,759                                   | 55,234,580                                   |
| Dividends paid  | 10,209,582                                   | 6,796,358                                    |
| <b><i>Natsoft Information Systems Private Limited</i></b>           |  |  |
| Dividends paid  | 9,460,500                                    | 6,307,000                                    |
| <b><i>NDL Infratech Private Limited</i></b>                         |  |  |
| Interest on loans granted   | 853,694                                      | -  |
| Loans given   | -  | 3,118,186                                    |
| <b><i>NATCO Trust</i></b>   |  |  |
| Donations given   | 22,500,000                                   | 9,800,000                                    |
| <b><i>NATCO Group Employees Welfare Trust</i></b>                   |  |  |
| Donations for the welfare of employees                              | 17,211,557                                   | 4,600,000                                    |
| Dividends paid  | 252,000                                      | -  |

(Contd.)



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in ₹, unless otherwise stated)

| Transactions with related parties                                | For the year ended<br>31 March, 2012 | For the year ended<br>31 March, 2011 |
|--|--------------------------------------|--------------------------------------|
| <b>Transactions with key management personnel</b>                |                                      |                                      |
| <b>V C Nannapaneni</b>   |                                      |                                      |
| Managerial remuneration  | 10,608,000                           | 10,608,000                           |
| Rental expenses  | 1,440,000                            | 1,440,000                            |
| Dividends paid   | 24,071,514                           | 15,993,918                           |
| Personnel guarantees against loans taken by the Company          | 1,110,814,800                        | 1,605,000,000                        |
| <b>Rajeev Nannapaneni</b>  |                                      |                                      |
| Managerial remuneration  | 8,400,000                            | 5,376,000                            |
| Rental expenses  | 720,000                              | 720,000                              |
| Dividends paid   | 2,719,830                            | 1,813,220                            |
| <b>Dr. P Bhaskara Narayana</b>                                   |                                      |                                      |
| Managerial remuneration  | 3,200,000                            | 2,330,549                            |
| Dividends paid   | 22,500                               | 15,000                               |
| <b>Dr. A K S Bhujanga Rao</b>                                    |                                      |                                      |
| Managerial remuneration  | 3,119,599                            | 2,627,012                            |
| Dividends paid   | 21,000                               | 14,000                               |
| <b>Transactions with a relatives of key management personnel</b> |                                      |                                      |
| <b>Durga Devi Nannapaneni</b>                                    |                                      |                                      |
| Dividends paid   | 2,483,460                            | 1,655,640                            |
| Personnel guarantees against loans taken by the Company          | 145,000,000                          | -                                    |
| <b>Dr. N Ramakrishna Rao</b>                                     |                                      |                                      |
| Dividends paid   | 425,946                              | 278,964                              |
| Personnel guarantees against loans taken by the Company          | 145,000,000                          | -                                    |
|  |                                      |                                      |
| Balances with related parties                                    | For the year ended<br>31 March, 2012 | For the year ended<br>31 March, 2011 |
| <b>Balance (due to) / due from</b>                               |                                      |                                      |
| NATCO Organics Limited   | 425,478,283                          | 306,077,225                          |
| Time Cap Pharma Labs Limited                                     | 2,001,778                            | (2,092,838)                          |
| Natsoft Information Systems Private Limited                      | 16,667                               | 16,667                               |
| NATCO Group Employees Welfare Trust                              | 10,000                               | 10,000                               |
| NDL Infratech Private Limited                                    | -                                    | 7,066,105                            |
| NATCO Trust  | 61,991                               | 62,390                               |
| V C Nannapaneni  | (483,008)                            | (1,686,151)                          |
| Rajeev Nannapaneni   | (329,630)                            | (913,403)                            |
| Dr. P Bhaskara Narayana  | (179,984)                            | (165,511)                            |
| Dr. A K S Bhujanga Rao   | (489,858)                            | (120,308)                            |
| Outstanding guarantees   |                                      |                                      |
| V C Nannapaneni, Chairman  | 3,624,842,671                        | 2,931,496,853                        |
| Dr. N Ramakrishna Rao  | 1,101,000,000                        | 956,000,000                          |
| Durga Devi Nannapaneni   | 1,101,000,000                        | 956,000,000                          |

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(All amounts in ₹, unless otherwise stated)

**Disclosure pursuant to Clause 32 of Listing Agreement**

Loans and Advances in the nature of loans in which directors are interested

| <b>Name of the Company</b>  | <b>31 March 2012</b> | <b>31 March 2011</b> |
|---|----------------------|----------------------|
| <b><i>Outstanding balance</i></b>                                     |                      |                      |
| Natsoft Information Systems Private Limited                           | <b>16,667</b>        | 16,667               |
| NDL Infratech Private Limited   | -                    | 7,066,105            |
| <b><i>Maximum balance outstanding at any time during the year</i></b> |                      |                      |
| Natsoft Information Systems Private Limited                           | <b>16,667</b>        | 16,667               |
| NDL Infratech Private Limited   | <b>7,066,105</b>     | 7,066,105            |

**30. TERMS AND CONDITIONS OF LOANS AND NATURE OF SECURITY****Secured term loans:**

- 1) Exim Bank term loans, (a) outstanding ₹328,647,049 (2011: ₹410,000,000) is repayable in 17 equal quarterly installments (b) outstanding ₹475,000,000 (2011: ₹500,000,000) is repayable in 20 equal quarterly installments (c) outstanding ₹Nil, (2011: ₹15,000,000). All the above are secured by pari-passu first charge on the entire immovable properties both present and future of Mekaguda Unit along with Citi Bank and Braclays Bank and an exclusive charge on all the immovable properties of both the units (Plot No-19 and Plot NoA-3) at Dehradun and personal guarantee of Mr. V.C. Nannapaneni, Chairman & Managing Director.
- 2) Axis Bank term loans (a) outstanding ₹254,000,000 (2011: ₹350,000,000), is repayable in 16 equal quarterly installments (b) outstanding ₹150,000,000 (2011: ₹Nil) is repayable in 48 equal monthly installments. Both the loans are secured by first charge on the entire immovable properties both present and future of Kothur Unit on pari-passu basis with SBI, apart from personal guarantee of Mr. V.C. Nannapaneni, Chairman & Managing Director
- 3) Citibank Term loan, outstanding ₹137,500,000 (2011: ₹187,500,000) is repayable in 16 equal quarterly installments and is secured by a pari-passu first charge on the entire immovable properties both present and future of Mekaguda Unit along with Exim Bank and Braclays Bank apart from personal guarantee of Mr. V.C. Nannapaneni, Chairman & Managing Director.
- 4) State Bank of India, outstanding ₹11,880,812 (2011: ₹11,996,853) is repayable in 16 equal quarterly installments and is secured by a first charge on the entire immovable properties both present and future of Kothur Unit on pari-passu basis with Axis Bank, apart from personal guarantee of Mr. V.C. Nannapaneni, Chairman & Managing Director.
- 5) Barclays Bank, External Commercial Borrowing outstanding of ₹410,814,800 (2011: ₹Nil) is repayable in 16 equal quarterly installments and a part of the loan is secured by an exclusive charge over all movable and immovable fixed assets of NATCO Research Center and a part of the loan is secured by first charge on the fixed assets of Mekaguda unit along with Exim Bank and Citibank.
- 6) All the above loans have been granted with a moratorium of 12 months, and carry interest linked to the respective Bank's / Institution's prime /base lending rate, and range from 3.53% per annum to 14% per annum.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### Secured working capital:

The working capital Loans are re-payable on demand. The primary security is joint pari-passu first charge on all current assets of the Company. The collateral security is joint pari-passu first charge on the corporate Office and all fixed assets of Nagarjuna Sagar Unit and also secured by personal guarantees of Mr. V.C. Nannapaneni, Chairman and managing director (b) Ms. Durga Devi Nannapaneni, promoter and (c) Dr. N. Ramakrishna Rao, Relative of Chairman and managing director.

These loans carry interest linked to the respective Bank's / Institution's prime /base lending rate, and range from 11.15% per annum to 14.25% per annum.

### Unsecured Loans:

Unsecured loans represent loans from Indus Ind Bank and Citi Bank and repayable on demand.

These loans carry interest rate ranging from 12% per annum to 12.50% per annum and are secured by personal guarantee of Mr. V.C. Nannapaneni, Chairman and managing director.



**31. Segment reporting**

The primary and secondary reportable segments are business segments and geographical segments respectively. The Group's principal segments of business are bulk chemicals, finished dosage formulations, retail pharmacy and job work charges. Segment's revenue, expense, assets and liabilities include amount of such items that can be allocated to the segment on a reasonable basis. Revenues, expenses, assets and liabilities which relate to the enterprise as a whole and are not allocable to segments on a reasonable basis have been included under others.

**Business segment**

**For the year ended 31 March 2012**

(All amounts in ₹, unless otherwise stated)

| Particulars                              | Bulk chemicals       | Finished dosage formulations | Job works         | Pharmacy           | Others             | Eliminations         | Total                |
|--|----------------------|------------------------------|-------------------|--------------------|--------------------|----------------------|----------------------|
| <b>Revenue</b>                           |                      |                              |                   |                    |                    |                      |                      |
| External sales                           | 1,476,615,867        | 2,741,538,172                | -                 | 880,473,879        | -                  | -                    | 5,098,627,918        |
| Inter-segment sales                      | 159,518,699          | -                            | -                 | -                  | -                  | (159,518,699)        | -                    |
| Less: Excise duty                        | 1,636,134,566        | 2,741,538,172                | -                 | 880,473,879        | -                  | (159,518,699)        | 5,098,627,918        |
|  | 19,532,790           | 49,604,983                   | -                 | -                  | -                  | -                    | 69,137,773           |
| Revenue [Net]                            | 1,616,601,776        | 2,691,933,189                | -                 | 880,473,879        | -                  | (159,518,699)        | 5,029,490,145        |
| Sale of dossiers                         | -                    | -                            | -                 | -                  | 38,483,783         | -                    | 38,483,783           |
| Job work charges                         | -                    | -                            | 89,549,686        | -                  | -                  | -                    | 89,549,686           |
| Other income                             | 25,992,767           | 53,712,506                   | -                 | 2,153,336          | 64,411,031         | -                    | 146,269,640          |
| <b>Total revenues</b>                    | <b>1,642,594,543</b> | <b>2,745,645,695</b>         | <b>89,549,686</b> | <b>882,627,215</b> | <b>102,894,814</b> | <b>(159,518,699)</b> | <b>5,303,793,254</b> |
| <b>Results</b>                           |                      |                              |                   |                    |                    |                      |                      |
| Segment result                           | 294,299,888          | 1,180,018,766                | 75,407,230        | (12,436,141)       | 91,716,814         | -                    | 1,629,006,557        |
| Unallocated corporate expenses           |                      |                              |                   |                    |                    |                      | 620,979,355          |
| Operating profit                         |                      |                              |                   |                    |                    |                      | 1,008,027,202        |
| Finance cost                             |                      |                              |                   |                    |                    |                      | 230,359,380          |
| Interest income                          |                      |                              |                   |                    |                    |                      | 24,874,055           |
| Profit before prior period items and tax |                      |                              |                   |                    |                    |                      | 802,541,877          |
| Prior period items                       |                      |                              |                   |                    |                    |                      | 7,123,512            |
| Profit before tax                        |                      |                              |                   |                    |                    |                      | 795,418,365          |
| Income tax [including deferred tax]      |                      |                              |                   |                    |                    |                      | 210,748,251          |
| Profit before minority interest          |                      |                              |                   |                    |                    |                      | 584,670,114          |
| Minority interest                        |                      |                              |                   |                    |                    |                      | (11,413,344)         |
| <b>Net profit for the year</b>           |                      |                              |                   |                    |                    |                      | <b>596,083,458</b>   |



**Segment reporting (Contd.)**

**Other information as at 31 March 2012**

(All amounts in ₹, unless otherwise stated)

| Particulars                                | Bulk chemicals       | Finished dosage formulations | Job works         | Pharmacy           | Others               | Eliminations        | Total                |
|--|----------------------|------------------------------|-------------------|--------------------|----------------------|---------------------|----------------------|
| Segment assets                             | 3,763,505,540        | 3,296,007,759                | 17,805,779        | 356,334,032        | 9,273,893            | -                   | 7,442,927,003        |
| Unallocated corporate assets               | -                    | -                            | -                 | -                  | 1,584,838,104        | -                   | 1,584,838,104        |
| <b>Total assets</b>                        | <b>3,763,505,540</b> | <b>3,296,007,759</b>         | <b>17,805,779</b> | <b>356,334,032</b> | <b>1,594,111,997</b> | <b>-</b>            | <b>9,027,765,107</b> |
| Segment liabilities                        | 554,234,118          | 423,946,554                  | -                 | 137,976,403        | 132,822,000          | (48,812,640)        | 1,200,166,435        |
| Minority interest                          | -                    | -                            | -                 | -                  | 8,838,771            | -                   | 8,838,771            |
| Unallocated corporate liabilities          | -                    | -                            | -                 | -                  | 3,106,761,430        | -                   | 3,106,761,430        |
| <b>Total liabilities</b>                   | <b>554,234,118</b>   | <b>423,946,554</b>           | <b>-</b>          | <b>137,976,403</b> | <b>3,248,422,201</b> | <b>(48,812,640)</b> | <b>4,315,766,636</b> |
| Capital expenditure                        | 860,566,325          | 535,804,039                  | -                 | 6,567,011          | 118,752,717          | -                   | 1,521,690,092        |
| Depreciation and amortisation              | 59,232,826           | 82,515,234                   | -                 | 5,027,221          | 12,303,634           | -                   | 159,078,915          |
| Non cash expenses, other than depreciation | -                    | 9,506,463                    | -                 | 284,937            | 15,501,465           | -                   | 25,292,865           |

31. Segment reporting

Business segment

For the year ended 31 March 2011

(All amounts in ₹, unless otherwise stated)

| Particulars                             | Bulk chemicals | Finished dosage formulations | Job works   | Pharmacy      | Others     | Eliminations  | Total              |
|---|----------------|------------------------------|-------------|---------------|------------|---------------|--------------------|
| <b>Revenue</b>                          |                |                              |             |               |            |               |                    |
| External sales                          | 1,059,883,793  | 2,254,691,862                | -           | 1,113,273,631 | -          | -             | 4,427,849,286      |
| Inter-segment sales                     | 150,149,588    | -                            | -           | -             | -          | (150,149,588) | -                  |
| Excise duty                             | 1,210,033,381  | 2,254,691,862                | -           | 1,113,273,631 | -          | (150,149,588) | 4,427,849,287      |
|   | 22,381,866     | 31,628,357                   | -           | -             | -          | -             | 54,010,223         |
| <b>Total Sales</b>                      | 1,187,651,515  | 2,223,063,505                | -           | 1,113,273,631 | -          | (150,149,588) | 4,373,839,064      |
| Sale of dossiers                        | -              | -                            | -           | -             | 75,405,617 | -             | 75,405,617         |
| Job work charges                        | -              | -                            | 109,777,459 | -             | -          | -             | 109,777,459        |
| Other Income                            | 27,427,417     | 29,241,007                   | -           | 2,567,130     | 22,697,316 | -             | 81,932,870         |
| <b>Total revenue</b>                    | 1,215,078,932  | 2,252,304,512                | 109,777,459 | 1,115,840,761 | 98,102,933 | (150,149,588) | 4,640,955,010      |
| <b>Results</b>                          |                |                              |             |               |            |               |                    |
| Segment result                          | 145,781,773    | 1,100,137,241                | 87,239,642  | (18,431,602)  | 39,204,045 | -             | 1,353,931,099      |
| Unallocated corporate expenses          |                |                              |             |               |            |               | 558,510,986        |
| Operating profit                        |                |                              |             |               |            |               | 795,420,113        |
| Finance cost                            |                |                              |             |               |            |               | 141,978,623        |
| Interest income                         |                |                              |             |               |            |               | 2,209,130          |
| Profit before tax and minority interest |                |                              |             |               |            |               | 651,232,360        |
| Income tax [Including deferred tax]     |                |                              |             |               |            |               | 132,112,548        |
| Profit before minority interest         |                |                              |             |               |            |               | 519,119,812        |
| Minority interest                       |                |                              |             |               |            |               | (15,991,318)       |
| <b>Net profit for the year</b>          |                |                              |             |               |            |               | <b>535,111,130</b> |

**Segment reporting (Contd.)**

**Other information as at 31 March 2011**

(All amounts in ₹, unless otherwise stated)

| Particulars                       | Bulk chemicals       | Finished dosage formulations | Job works         | Pharmacy           | Others               | Eliminations        | Total                |
|-----------------------------------|----------------------|------------------------------|-------------------|--------------------|----------------------|---------------------|----------------------|
| <b>Other information</b>          |                      |                              |                   |                    |                      |                     |                      |
| Segment assets                    | 3,055,342,322        | 2,633,261,903                | 21,630,653        | 307,436,903        | 14,307,722           | -                   | 6,031,979,503        |
| Unallocated corporate assets      | -                    | -                            | -                 | 1,041,209,284      | -                    | -                   | 1,041,209,284        |
| <b>Total assets</b>               | <b>3,055,342,322</b> | <b>2,633,261,903</b>         | <b>21,630,653</b> | <b>307,436,903</b> | <b>1,055,517,006</b> | <b>-</b>            | <b>7,073,188,787</b> |
| Segment liabilities               | 641,256,032          | 294,264,470                  | -                 | 82,279,591         | 31,875,000           | (37,135,941)        | 1,012,539,152        |
| Minority interest                 | -                    | -                            | -                 | -                  | 10,589,929           | -                   | 10,589,929           |
| Unallocated corporate liabilities | -                    | -                            | -                 | -                  | 2,525,729,034        | -                   | 2,525,729,034        |
| <b>Total liabilities</b>          | <b>641,256,032</b>   | <b>294,264,470</b>           | <b>-</b>          | <b>82,279,591</b>  | <b>2,568,193,963</b> | <b>(37,135,941)</b> | <b>3,548,858,115</b> |
| Capital expenditure               | 304,624,512          | 495,454,988                  | -                 | 32,211,773         | 149,047,449          | -                   | 981,338,722          |
| Depreciation and amortisation     | 52,627,514           | 63,194,773                   | -                 | 15,335,647         | 27,658,162           | -                   | 158,816,096          |
| Other non-cash expenses           | 296,937              | 3,273,300                    | 2,718,152         | 59,527,357         | 41,369,961           | -                   | 107,185,707          |

The Group's secondary segments are the geographic distribution of activities. Revenue and receivables are specified by location of customers and other information is specified by location of assets. The table below, present revenue, capital expenditure and asset information regarding the group's secondary segment.

| Particulars       | For the year ended and as at 31 March 2012 |                      |                      | For the year ended and as at 31 March 2011 |                      |                     |
|-------------------|--|----------------------|----------------------|--|----------------------|---------------------|
|                   | Segment revenue                            | Segment assets       | Capital expenditure  | Segment revenue                            | Segment assets       | Capital expenditure |
| India             | 2,549,473,971                              | 8,154,695,201        | 1,515,123,081        | 2,187,456,718                              | 6,454,807,771        | 949,126,949         |
| America           | 1,411,292,494                              | 430,995,591          | 846,037              | 1,232,293,536                              | 507,843,197          | 181,828             |
| Europe            | 971,314,500                                | 304,707,538          | -                    | 504,105,655                                | 38,047,529           | -                   |
| Rest of the world | 396,586,344                                | 137,366,777          | 5,720,974            | 719,308,231                                | 72,490,290           | 32,029,945          |
| <b>TOTAL</b>      | <b>5,328,667,309</b>                       | <b>9,027,765,107</b> | <b>1,521,690,092</b> | <b>4,643,164,140</b>                       | <b>7,073,188,787</b> | <b>981,338,722</b>  |

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(All amounts in ₹, unless otherwise stated)

|  | As at<br>31 March, 2012 | As at<br>31 March, 2011 |
|--|-------------------------|-------------------------|
| <b>32. CONTINGENT LIABILITIES AND COMMITMENTS</b>  |                         |                         |
| <b>a. Commitments</b>  |                         |                         |
| Estimated amount of contracts remaining to be executed on capital account and not provided for (net of advances) | <b>67,213,981</b>       | 380,896,183             |
| <b>b. Contingent liabilities</b>   |                         |                         |
| Claims against the company not acknowledged as debt  | <b>320,068,008</b>      | 156,290,615             |
| Disputed sales tax liabilities   | <b>8,690,000</b>        | 8,690,000               |
| Disputed income tax liabilities  | <b>169,259,702</b>      | 162,335,436             |

Claims against the Company not acknowledged as debt, represents claim including interest lodged by M/s. SMS Pharmaceuticals Limited, against the Company. During the current year, the Hon'ble City Civil Court, Hyderabad has passed the judgement against the Company. Based on a legal advice received, management is of the opinion that the Hon'ble City Civil Court has not taken due cognizance of certain material facts and is confident of favorable outcome of the proposed appeal before the Hon'ble High Court of Andhra Pradesh.

Disputed tax liabilities primarily represents additional tax demanded by the Tax Authorities, challenging the Company's basis of computing profits of units covered by the provisions of Section 80IC of the Income Tax Act, 1961. Pending final outcome of such matters and in view of the order for Assessment Year 2007-08 being set aside by appellate authorities, management is confident of favorable outcome of the proceedings.

**33. UNHEDGED FOREIGN CURRENCY EXPOSURE**

**Particulars of unhedged foreign currency exposure as at the reporting date**

|   | As at<br>31 March, 2012 | As at<br>31 March, 2011 |
|---|-------------------------|-------------------------|
| Long-term borrowings (including current maturities) | <b>410,814,800</b>      | -                       |
| Trade payables                                      | <b>30,217,284</b>       | 16,947,305              |
| Interest accrued but not due on borrowings          | <b>915,996</b>          | -                       |
| Trade receivables*                                  | <b>49,263,137</b>       | 29,603,654              |

\* Net of discounted bills of ₹467,326,395 (2011: ₹281,340,458)

|                                 | For the year ended<br>31 March, 2012 | For the year ended<br>31 March, 2011 |
|---------------------------------|--------------------------------------|--------------------------------------|
| <b>34. PAYMENTS TO AUDITORS</b> |                                      |                                      |
| As auditor                      | <b>1,050,000</b>                     | 1,050,000                            |
| For other services              | <b>900,000</b>                       | 25,000                               |
| Reimbursement of expenses       | <b>4,236</b>                         | 3,500                                |
|                                 | <b>1,954,236</b>                     | 1,078,500                            |

**35. Comparatives**

Previous year comparatives have been reclassified and regrouped wherever necessary, to confirm to current years presentation.

For and on behalf of Board of Directors of  
**NATCO Pharma Limited**

|                                 |   |
|---------------------------------|---|
| <b>V.C. Nannapaneni</b>         | Chairman & Managing Director            |
| <b>Rajeev Nannapaneni</b>       | Director & Chief Operating Officer      |
| <b>Dr. P. Bhaskara Narayana</b> | Director & Chief Financial Officer      |
| <b>M. Adinarayana</b>           | Company Secretary & G M (Corp. Affairs) |

Place : Hyderabad  
Date : 28 May, 2012



## CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31 MARCH 2012

(All amounts in ₹, unless otherwise stated)

|  | For the year ended<br>31 March, 2012 | For the year ended<br>31 March, 2011 |
|--|--------------------------------------|--------------------------------------|
| <b>Cash flows from operating activities</b>  |                                      |                                      |
| Profit before tax  | 795,418,366                          | 651,232,360                          |
| <b>Adjustments for non-cash transactions</b>   |                                      |                                      |
| Depreciation and amortisation expense  | 159,078,915                          | 158,816,096                          |
| Loss/(profit) on sale of investments   | (747,897)                            | 18,674                               |
| Diminution in the value of investments   | 3,265,855                            | 500,358                              |
| Loss on sale of fixed assets (net)   | -                                    | 55,921,488                           |
| Inventory written-off  | 3,751,630                            | 2,260,108                            |
| <i>Allowances for:</i>   |                                      |                                      |
| - contingencies  | -                                    | 31,875,000                           |
| - bad and doubtful trade receivables   | -                                    | 9,729,325                            |
| Bad and doubtful trade receivables written off   | 6,039,770                            | 41,247                               |
| Advances written-off   | -                                    | 77,927                               |
| Provision for employee benefits  | 12,235,610                           | 5,563,620                            |
| Unrealised foreign exchange loss/(gain), net   | (636,322)                            | 1,197,962                            |
|  | 978,405,927                          | 917,234,165                          |
| <b>Items considered separately</b>   |                                      |                                      |
| Interest income  | (24,874,055)                         | (2,209,130)                          |
| Dividend income  | (220,720)                            | -                                    |
| Interest expenses  | 211,796,315                          | 124,890,998                          |
| <b>Operating profit before working capital changes</b>                                   | 1,165,107,467                        | 1,039,916,033                        |
| Increase/(decrease) in other current liabilities   | 114,867,541                          | (25,174,917)                         |
| Increase in trade payables   | 156,867,303                          | 64,183,010                           |
| Increase in long term liabilities  | 1,050,000                            | 32,565,864                           |
| Increase in inventories  | (85,320,303)                         | (250,228,111)                        |
| Increase in trade receivables  | (241,792,730)                        | (150,263,057)                        |
| (Increase)/decrease in short term loans and advances                                     | (236,729,334)                        | 150,902,972                          |
| (Increase)/decrease in long term loans and advances                                      | 11,343,852                           | (307,033,300)                        |
| <b>Cash generated from operating activities</b>  | 885,393,796                          | 554,868,494                          |
| Income taxes paid  | (235,986,387)                        | (184,973,040)                        |
| <b>Net cash generated from operating activities</b> <span style="float: right;">A</span> | 649,407,409                          | 369,895,454                          |
| <b>Cash flows from investing activities</b>  |                                      |                                      |
| Purchase of tangible assets  | (1,279,918,029)                      | (918,078,199)                        |
| Proceeds from sale of tangible assets  | -                                    | 90,635,513                           |
| Purchase of intangible assets  | (5,301,609)                          | (41,547,323)                         |
| Purchase of current investments  | (5,353,123)                          | (23,656,728)                         |
| Proceeds from sale of current investments  | 3,616,569                            | 3,052,765                            |
| Interest received  | 22,139,712                           | 1,943,414                            |
| Receipt of capital subsidy   | 3,000,000                            | 200,000                              |
| Increase in other bank balances  | (7,772,196)                          | (376,429)                            |
| Dividends received   | 220,720                              | -                                    |
| <b>Net cash used in investing activities</b> <span style="float: right;">B</span>        | (1,269,367,956)                      | (887,826,987)                        |

**CONSOLIDATED CASH FLOW STATEMENT (Contd.)**

(All amounts in ₹, unless otherwise stated)

|   | For the year ended<br>31 March, 2012 | For the year ended<br>31 March, 2011 |
|---|--------------------------------------|--------------------------------------|
| <b>Cash flows from financing activities</b>   |                                      |                                      |
| Proceeds from issue of equity share capital   | 675,000,000                          | -                                    |
| Proceeds from long term borrowings  | 508,740,250                          | 1,260,000,000                        |
| Repayment of long term borrowings   | (270,278,046)                        | (428,121,395)                        |
| Minority interest contribution received   | 9,662,186                            | 7,813,750                            |
| Distribution to minority interest share   | -                                    | (30,634,185)                         |
| Proceeds from short term borrowings, net  | 96,196,971                           | 172,815,420                          |
| Interest paid   | (284,847,957)                        | (145,629,066)                        |
| Dividends paid (including tax on distributed profits)                                 | (106,721,038)                        | (65,219,360)                         |
| <b>Net cash generated from financing activities</b> C                                 | <u>627,752,366</u>                   | <u>771,025,164</u>                   |
| <b>Effect of currency translation adjustment</b> D                                    | <u>21,686,200</u>                    | <u>(1,419,965)</u>                   |
| Net increase in cash and cash equivalents (A+B+C+D)                                   | 29,478,019                           | 251,673,666                          |
| Cash and cash equivalents as at the beginning of the year                             | <u>316,966,870</u>                   | <u>65,293,204</u>                    |
| <b>Cash and cash equivalents as at the end of the year [Refer Note 1]</b>             | <u>346,444,889</u>                   | <u>316,966,870</u>                   |
| <b>Note 1:</b>  |                                      |                                      |
| Cash and bank balances as per Note 16, 20   | 370,532,785                          | 333,282,570                          |
| Less: Other bank balances   | <u>24,087,896</u>                    | <u>16,315,700</u>                    |
| <b>Cash and cash equivalents considered for cash flow</b>                             | <u>346,444,889</u>                   | <u>316,966,870</u>                   |
| <b>Notes 1 to 35 form an integral part of these consolidated financial statements</b> |                                      |                                      |

This is the consolidated cash flow statement referred to in our report of even date.

For and on behalf of Board of Directors of  
**NATCO Pharma Limited**

For **Walker, Chandio & Co.**  
Chartered Accountants  
per **Sanjay Kumar**  
Partner

**V.C. Nannapaneni**  
**Rajeev Nannapaneni**

Chairman & Managing Director  
Director & Chief Operating Officer

Place: Hyderabad  
Date : 28 May, 2012

**Dr. P. Bhaskara Narayana**  
**M. Adinarayana**

Director & Chief Financial Officer  
Company Secretary & G M (Corp. Affairs)

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ATTENDANCE SLIP



NATCO PHARMA LIMITED

Registered Office: NATCO House, Road No.2, Banjara Hills, Hyderabad 500 033

Please fill Attendance Slip and hand it over at the entrance of the Meeting Hall

|              |
|--------------|
| DPID* :      |
| Client ID* : |

|             |
|-------------|
| Folio No. : |
|-------------|

Name and address of the Shareholder  
No. of Share(s) held :

I / We hereby record my / our presence at the 29th ANNUAL GENERAL MEETING of the Company held on Saturday, the 29th day of September, 2012 at 10:30 a.m. at Daspalla Hotel, Road No.37, Jubilee Hills, Hyderabad- 500 033

Signature of the Shareholder or Proxy

\* Applicable for investors holding shares in Electronic Form.

----- Tear Here -----

PROXY FORM



NATCO PHARMA LIMITED

Registered Office: NATCO House, Road No.2, Banjara Hills, Hyderabad 500 033

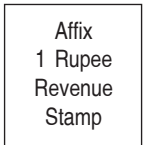
|              |
|--------------|
| DPID* :      |
| Client ID* : |

|             |
|-------------|
| Folio No. : |
|-------------|

I/We -----  
of ----- being a member/members of Natco Pharma  
Limited hereby appoint -----  
of ----- or failing  
him/her ----- of  
as my/our proxy to vote for me/us and on my/our behalf at the 29th ANNUAL GENERAL MEETING to be held on  
Saturday, the 29th day of September, 2012 at 10:30 a.m. or at any adjournment thereof.

Signed this ----- day of ----- 2012.

\* Applicable for investors holding shares in Electronic Form.



- Note:
- i. The Proxy Form should be signed across the stamp as per specimen signature registered with the Company.
  - ii. The Proxy Form must be deposited at the Registered Office of the Company not less than 48 hours before the time fixed for holding the meeting.
  - iii. The Proxy need not be a member of the Company.



## Corporate Social Responsibility activities taken up by the Company under the aegis of NATCO Trust



sports materials distribution



women in alumni meet



vocational training



Natco pre primary school



NMHC services



nutrition centre



**NATCO Pharma Limited**

Natco House

Road No. 2, Banjara Hills, Hyderabad - 500 033.

Ph : 040-23547532